185351

Confirmation Number: 015794

Submission Date: 09/06/2005 09:41:13 AM Eastern Time

RETAIN THIS PRINTED COPY AND THE DATA FILE(S) SUBMITTED TO THE MSRB FOR YOUR RECORDS FOR PURPOSES OF MSRB RULE G-8.

MSRB FORM G-36(OS) - FOR OFFICIAL STATEMENTS

MATERIALS SUBMITTED

A. THIS FORM IS SUBMITTED IN CONNECTION WITH **(check one)**:

1 X A FINAL OFFICIAL STATEMENT RELATING TO A PRIMARY OFFERING OF MUNICIPAL SECURITIES **(enclose two (2) copies)**

(a) DATE RECEIVED FROM ISSUER: 09/06/2005 (b) DATE SENT TO MSRB: 09/06/2005

2 AN AMENDED OFFICIAL STATEMENT WITHIN THE MEANING OF RULE G-36(d) **(enclose two (2) copies)**

(a) DATE RECEIVED FROM ISSUER: (b) DATE SENT TO MSRB:

B. IF MATERIALS SUBMITTED WITH THIS FORM CONSIST OF MORE THAN ONE DOCUMENT (e.g., preliminary offical statement and wrap, even if physically attached), PLEASE CHECK HERE:

C. IF THIS FORM AMENDS PREVIOUSLY SUBMITTED FORM WITHOUT CHANGING MATERIALS SUBMITTED, PLEASE CHECK HERE **(include copy of original Form G-36(OS))**:

IF THIS SUBMISSION IS FOR COMMERCIAL PAPER, PLEASE CHECK HERE:

IF THIS SUBMISSION IS FOR MUNICIPAL FUND SECURITIES, PLEASE CHECK HERE:

IDENTIFICATION OF ISSUES

Each issue must be listed separately.

NAME OF ISSUER:	COUNTY OF SAN DIEGO CERTIFICATES OF PARTICIPATION (NORTH AND EAST COUNTY JUSTICE FACILITIE	STATE:	CA
ISSUE DESCRIPTION:	RFDG	DATED DATE:	09/08/2005

CUSIP Information

MSRB rule G-34 requires that CUSIP numbers be assigned to each new issue of municipal securities unless the issue is ineligible for CUSIP number assignment under the eligibility criteria of the CUSIP Service Bureau.

A. CUSIP-9 NUMBERS OF ISSUE

Maturity Date	CUSIP Number	Maturity Date	CUSIP Number	Maturity Date	CUSIP Number
11/15/2006	797391A58	11/15/2007	797391A66	11/15/2008	797391A74
11/15/2008	797391A82	11/15/2009	797391A90	11/15/2009	797391B24
11/15/2010	797391B32	11/15/2011	797391B40	11/15/2011	797391B57
11/15/2012	797391B65	11/15/2012	797391B73	11/15/2013	797391B81
11/15/2013	797391B99	11/15/2014	797391C23	11/15/2014	797391C31
11/15/2015	797391C49	11/15/2016	797391C56	11/15/2017	797391C64
11/15/2018	797391C72	11/15/2019	797391C80		

B. IF ANY OF THE ABOVE SECURITIES HAS A "CUSIP-6" BUT NO "CUSIP-9", CHECK HERE AND LIST THEM BELOW:
(Please see instructions in Form G-36 Manual)

LIST ALL CUSIP-6 NUMBERS ASSIGNED:

State the reason why such securities have not been assigned a 'CUSIP-9':

C. IF ANY OF THESE SECURITIES IS INELIGIBLE FOR CUSIP NUMBER ASSIGNMENT, PLEASE CHECK HERE:

State the reason why such securities are ineligible for CUSIP number assignment:

TRANSACTION INFORMATION

A. LATEST FINAL MATURITY DATE OF ALL SECURITIES IN OFFERING: 11/15/2019

B. DATE OF FINAL AGREEMENT TO PURCHASE, OFFER OR SELL SECURITIES (Date of Sale): 08/25/2005

C. ACTUAL OR EXPECTED DATE OF DELIVERY OF SECURITIES TO UNDERWRITER(S) (Bond Closing): 09/08/2005

D. IF THESE SECURITIES ADVANCE REFUND ALL OR A PORTION OF ANOTHER ISSUE, PLEASE CHECK HERE:

Form G-36(ARD) and copies of the advance refunding documents must be submitted for each issue advance refund.

UNDERWRITING ASSESSMENT INFORMATION

This information will be used by the MSRB to compute any rule A-13 underwriting assessment that may be due on this offering. The managing underwriter will be sent an invoice if a rule A-13 assessment is due on the offering.

A Managing Underwriter: UBS Financial Services Inc. SEC Reg Number: 8-16267

B TOTAL PAR VALUE OF ALL SECURITIES IN OFFERING: $ 28,210,000.00

C PAR AMOUNT OF SECURITIES UNDERWRITTEN (if different from amount shown in item B above): $

D CHECK ALL THAT APPLY:

1. At the option of the holder thereof, all securities in this offering may be tendered to the issuer of such securities or its designated agent for redemption or purchase at par value or more at least as frequently as every nine months until maturity, earlier redemption, or purchase by the issuer or its designated agent.
2. At the option of the holder thereof, all securities in this offering may be tendered to the issuer of such securities or its designated agent for redemption or purchase at par value or more at least as frequently as every two years until maturity, earlier redemption, or purchase by the issuer or its designated agent.
3. This offering is exempt from SEC Rule 15c2-12 under section (d)(1)(i) of that rule. Section (d)(1)(i) of SEC Rule 15c2-12 states that an offering is exempt from the requirements of the rule if the securities offered have authorized denominations of $100,000 or more and are sold to no more than 35 persons each of whom the participating underwriter believes: (1) has the knowledge and expertise necessary to evaluate the merits and risks of the investment; and (2) is not purchasing for more than one account, or with a view toward distributing the securities.

MANAGING UNDERWRITER'S CERTIFICATION AND SIGNATURE

THE SUBMITTER BELOW CERTIFIES THAT THE MATERIALS ACCOMPANYING THIS FORM ARE AS DESCRIBED ABOVE AND THAT ALL OTHER INFORMATION CONTAINED HEREIN IS TRUE AND CORRECT. THE SUBMITTER ACKNOWLEDGES THAT SAID MATERIALS WILL BE PUBLICLY DISSEMINATED.

ON BEHALF OF THE MANAGING UNDERWRITER IDENTIFIED ABOVE.

SIGNED: SUBMITTED ELECTRONICALLY

M. S. R. B.

SEP 06 2005

RECEIVED

NEW ISSUE — BOOK-ENTRY-ONLY

	INSURED RATINGS:	UNDERLYING RATINGS:
	Moody's: "Aaa"	Moody's: "A1"
	Fitch: "AAA"	Fitch: "AA-"
	S&P: "AAA"	S&P: "AA-"

In the opinion of Orrick, Herrington & Sutcliffe llp, Special Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest evidenced by the Series 2005 Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Special Counsel, interest evidenced by the Series 2005 Certificates is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Special Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Special Counsel expresses no opinion regarding any other tax consequences related to the ownership of, or accrual or receipt of interest evidenced by, the Series 2005 Certificates. See "Tax Matters" herein.

$28,210,000
COUNTY OF SAN DIEGO
Certificates of Participation
(North and East County Justice Facilities Refunding)
Evidencing and Representing Proportionate Undivided Interest of the Owners Thereof in Base Rental Payments to be Made by the County of San Diego to the San Diego County Capital Asset Leasing Corporation

Dated: Date of Delivery **Due: November 15, as shown on the inside cover**

The County of San Diego Certificates of Participation (North and East County Justice Facilities Refunding) (the "Series 2005 Certificates") are being executed and delivered pursuant to a Trust Agreement, dated as of September 1, 2005, by and among Zions First National Bank, as trustee (the "Trustee"), the County of San Diego (the "County") and the San Diego County Capital Asset Leasing Corporation (the "Corporation"). The Series 2005 Certificates evidence proportionate undivided interests in the base rental payments (the "Base Rental Payments") to be made by the County pursuant to that certain Refunding Sublease, dated as of September 1, 2005 (the "Sublease") to be entered into by the County and the Corporation, pursuant to which the County will sublease from the Corporation certain real property and all the improvements thereon or to be located thereon, as more particularly described herein (the "Property"). See "Security and Sources of Payment for the Series 2005 Certificates – Base Rental Payments" herein. The proceeds of the Series 2005 Certificates will be applied to (i) refund all of the outstanding County of San Diego Certificates of Participation (1996 North County Regional Center Expansion and East County Courthouse Detention Facility Conversion), (ii) to fund a reserve for the Series 2005 Certificates, and (iii) pay certain costs of issuance incurred in connection with the Series 2005 Certificates. See "Plan of Refunding" and "Estimated Sources and Uses of Funds" herein.

Interest represented by the Series 2005 Certificates is payable on May 15 and November 15 of each year, commencing on May 15, 2006. The Series 2005 Certificates will be issued in book-entry form only and, when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Series 2005 Certificates. Individual purchases of the Series 2005 Certificates will be made in book-entry form only. Purchasers of the Series 2005 Certificates will not receive certificates representing their ownership interests in the Series 2005 Certificates purchased. Principal and interest payments represented by the Series 2005 Certificates are payable directly to DTC by the Trustee from Base Rental Payments. Upon receipt of payments of principal and interest, DTC will in turn distribute such payments to the beneficial owners of the Series 2005 Certificates. See Appendix D — "Book-Entry System" attached hereto.

Payment of principal and interest with respect to the Series 2005 Certificates when due will be insured by a financial guaranty insurance policy to be issued by Ambac Assurance Corporation simultaneously with the delivery of the Series 2005 Certificates. See "Certificate Insurance" herein and Appendix F — "Form of Financial Guaranty Insurance Policy" attached hereto.

Ambac

The Series 2005 Certificates are subject to optional and extraordinary prepayment, as described herein. See "The Series 2005 Certificates — Prepayment" herein.

THE OBLIGATION OF THE COUNTY TO MAKE BASE RENTAL PAYMENTS AND TO PAY ADDITIONAL RENTAL UNDER THE SUBLEASE DOES NOT CONSTITUTE AN OBLIGATION OF THE COUNTY FOR WHICH THE COUNTY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE COUNTY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. NEITHER THE SERIES 2005 CERTIFICATES NOR THE OBLIGATION OF THE COUNTY TO MAKE BASE RENTAL PAYMENTS OR TO PAY ADDITIONAL RENTAL UNDER THE SUBLEASE CONSTITUTES AN INDEBTEDNESS OF THE COUNTY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

This cover page contains information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to making an informed investment decision.

The Series 2005 Certificates will be offered when, as and if executed and delivered, and received by the Underwriters, subject to the approval as to their legality by Orrick, Herrington & Sutcliffe llp, Special Counsel, and certain other conditions. Certain legal matters will be passed upon for the Underwriters by their counsel, Hawkins Delafield & Wood LLP, Los Angeles, California, and for the County and the Corporation by the County Counsel. It is anticipated that the Series 2005 Certificates in definitive form will be available for delivery through the facilities of DTC in New York, New York, on or about September 8, 2005.

UBS Financial Services Inc. **E. J. De La Rosa & Co. Inc.**

Dated: August 25, 2005

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended June 30, 2004
(In Thousands)

	Budgeted Amounts			Actual Amounts Budgetary	Variance with Final Budget-
		Original	Final	Basis	Pos (Neg)
Revenues:					
Taxes	$	415,657	415,657	457,062	41,405
Licenses, permits and franchises		31,993	31,993	31,233	(760)
Fines, forfeitures and penalties		35,004	42,516	40,363	(2,153)
Revenue from use of money and property		17,074	16,635	13,872	(2,763)
Aid from other governmental agencies:					
State		878,346	885,398	649,829	(235,569)
Federal		461,396	519,191	588,815	69,624
Other		52,037	53,746	57,442	3,696
Charges for current services		227,948	230,284	246,381	16,097
Other revenue		26,134	44,648	32,058	(12,590)
Total revenues		2,145,589	2,240,068	2,117,055	(123,013)
Expenditures:					
Current:					
General:					
Board of supervisors district # 1		983	1,569	1,387	182
Board of supervisors district # 2		1,049	1,509	1,403	106
Board of supervisors district # 3		970	1,541	1,430	111
Board of supervisors district # 4		986	1,412	1,284	128
Board of supervisors district # 5		1,072	1,685	1,372	313
Board of supervisors general office		917	1,058	1,014	44
Clerk of the board of supervisors		5,720	6,862	6,029	833
CAC major maintenance		1,067	1,581	1,372	209
Chief administrative office		3,877	4,951	4,757	194
Community enhancement		3,034	3,034	3,033	1
Community projects		11,117	7,881	7,877	4
Community services		5,850	8,669	2,422	6,247
Land use and environment		413	484	413	71
Financing and general government group		19,701	19,046	12,522	6,524
Auditor and controller		28,670	38,146	37,770	376
Assessor/recorder/county clerk		28,592	41,415	41,415	
Treasurer/tax collector		14,347	18,438	18,289	149
County counsel		16,758	25,937	24,942	995
Human resources		19,185	24,846	22,923	1,923
Civil service commission		327	448	448	
Register of voters		8,445	43,359	14,907	28,452
County technology office		7,318	9,403	8,447	956
Countywide general expense		11,846	27,034	1,351	25,683
Contribution to capital outlay			129		129
Contingency reserve		11,000	8,000		8,000
Department of public works		508	508	508	
Health and human services agency		2,413	3,166	2,546	620
Total general	$	**206,165**	**302,111**	**219,861**	**82,250**

(Cont)

See notes to required supplementary information

MATURITY SCHEDULE

BASE CUSIP No.: 797391*

Maturity (November 15)	Principal Amount	Interest Rate	Yield	CUSIP*
2006	$1,550,000	3.25%	2.71%	A58
2007	1,600,000	3.25	2.88	A66
2008	1,180,000	3.25	2.98	A74
2008	475,000	4.00	2.98	A82
2009	750,000	4.00	3.11	A90
2009	960,000	3.25	3.11	B24
2010	1,780,000	4.25	3.22	B32
2011	850,000	4.50	3.37	B40
2011	1,000,000	3.50	3.37	B57
2012	1,535,000	4.00	3.51	B65
2012	390,000	4.50	3.51	B73
2013	1,005,000	4.00	3.61	B81
2013	1,005,000	3.50	3.61	B99
2014	1,660,000	4.00	3.72	C23
2014	425,000	4.50	3.72	C31
2015	2,180,000	4.50	3.81	C49
2016(1)	2,285,000	5.00	3.92	C56
2017(1)	2,400,000	5.00	4.00	C64
2018(1)	2,525,000	5.00	4.05	C72
2019(1)	2,655,000	5.00	4.08	C80

(1) Priced to the November 15, 2015 prepayment date at a prepayment price of 100%.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Series 2005 Certificates by any person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale. No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations other than those contained in this Official Statement. If given or made, such other information or representations must not be relied upon as having been authorized by the County, the Corporation, or the Underwriters.

This Official Statement is not to be construed as a contract with the purchasers of the Series 2005 Certificates. Statements contained in this Official Statement which involve estimates, projections, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of facts.

The information set forth herein has been provided by the County and other sources that are believed by the County to be reliable. The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, its responsibility to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

The information and expressions of opinion herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the County or the Corporation since the date hereof. This Official Statement is submitted with respect to the sale of the Series 2005 Certificates referred to herein and may not be reproduced or used, in whole or in part, for any other purpose, unless authorized in writing by the County. All summaries of the documents and laws are made subject to the provisions thereof and do not purport to be complete statements of any or all such provisions. Preparation of this Official Statement and its distribution have been duly authorized and approved by the County and the Corporation.

In connection with the offering of the Series 2005 Certificates, the Underwriters may over-allot or effect transactions which stabilize or maintain the market price of the Series 2005 Certificates at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriters may offer and sell the Series 2005 Certificates to certain dealers, institutional investors and others at prices lower than the public offering prices stated on the inside cover page hereof and such public offering prices may be changed from time to time by the Underwriters.

COUNTY OF SAN DIEGO, STATE OF CALIFORNIA

BOARD OF SUPERVISORS

Pam Slater-Price, Chairwoman	Third District
Bill Horn, Vice-Chairman	Fifth District
Greg Cox	First District
Dianne Jacob	Second District
Ron Roberts	Fourth District

SAN DIEGO COUNTY CAPITAL ASSET LEASING CORPORATION

BOARD OF DIRECTORS

Michel Anderson, *Chairman*
Timothy Considine, *Vice-Chairman*
Barry I. Newman, *Secretary*
Jeff Kane, *Treasurer*
David E. Devol, *Director*

COUNTY OFFICIALS

Walter F. Ekard, *Chief Administrative Officer*
Dan McAllister, *Treasurer - Tax Collector*
Donald F. Steuer, *Chief Financial Officer*
Tracy M. Sandoval, *Auditor & Controller*
John J. Sansone, *County Counsel*

SPECIAL SERVICES

Special Counsel
Orrick, Herrington & Sutcliffe LLP
Los Angeles, California

Trustee
Zions First National Bank
Los Angeles, California

Financial Advisor
RBC Dain Rauscher Inc.

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County of San Diego to the San Diego County Capital Asset Leasing Corporation

INTRODUCTION

This introduction contains only a brief summary of certain of the terms of the Series 2005 Certificates being offered, and a brief description of the Official Statement. All statements contained in this introduction are qualified in their entirety by reference to the entire Official Statement. References to, and summaries of, provisions of the Constitution and laws of the State of California and any documents referred to herein do not purport to be complete and such references are qualified in their entirety by reference to the complete provisions. All capitalized terms used in this Official Statement and not otherwise defined herein have the meanings set forth in the Trust Agreement and the Sublease (defined herein). See Appendix C – "Summary of Principal Legal Documents – Definitions" attached hereto.

General

This Official Statement, including the cover page and the Appendices attached hereto (the "Official Statement"), provides certain information concerning the sale and delivery of the County of San Diego Certificates of Participation (North and East County Justice Facilities Refunding) in an aggregate principal amount of $28,210,000 (the "Series 2005 Certificates"). The Series 2005 Certificates are being executed and delivered pursuant to a Trust Agreement, dated as of September 1, 2005, by and among Zions First National Bank, as trustee (the "Trustee"), the County of San Diego (the "County") and the San Diego County Capital Asset Leasing Corporation (the "Corporation") to (i) refund all of the County of San Diego Certificates of Participation (1996 North County Regional Center Expansion and East County Courthouse Detention Facility Conversion) (the "Prior Certificates"), which are presently outstanding in the aggregate principal amount of $30,595,000, (ii) fund a reserve for the Series 2005 Certificates, and (iii) pay certain costs of issuance incurred in connection with the Series 2005 Certificates. See "Plan of Refunding" and "Estimated Sources and Uses of Funds" herein.

In connection with the prepayment of the Prior Certificates, the County will lease certain real property and all improvements thereon or to be located thereon, as more particularly described herein (the "Property") to the Corporation pursuant to a Refunding Lease, dated as of September 1, 2005 (the "Lease"), by and between the County and the Corporation. See "The Property" herein. The County will sublease the Property from the Corporation pursuant to a Refunding Sublease, dated as of September 1, 2005 (the "Sublease"), by and between the County and the Corporation. The Series 2005 Certificates evidence proportionate undivided interests in the base rental payments (the "Base Rental Payments") to be made by the County as rental for the Property under the Sublease. See "Security and Sources of Payment for the Series 2005 Certificates" herein.

Security and Source of Payment for the Series 2005 Certificates

Under the Sublease, in consideration for the use and occupancy of the Property, the County has agreed to make certain payments designated as Base Rental Payments and certain other payments designated as Additional Rental (the "Additional Rental"), in the amounts, at the times and in the manner set forth in the Sublease. Base Rental Payments are scheduled to be sufficient to pay, when due, amounts designated as principal and interest represented by the Series 2005 Certificates. The County has covenanted in the Sublease to take such action as may be necessary to include all Base Rental Payments and the Additional Rental due thereunder in its operating budget for each fiscal year commencing after the date of the Sublease, and to make all necessary appropriations for such Base Rental Payments and Additional Rental.

Pursuant to an Assignment Agreement, dated as of September 1, 2005 (the "Assignment Agreement"), by and between the Trustee and the Corporation, the Corporation will assign to the Trustee, for the benefit of the Owners of the Series 2005 Certificates (i) all of its right, title and interest in and to Lease, and (ii) all of its right, title and interest in and to the Sublease including the right to receive Base Rental Payments under the Sublease. See Appendix C – "Summary of Principal Legal Documents" attached hereto.

THE OBLIGATION OF THE COUNTY TO MAKE BASE RENTAL PAYMENTS AND TO PAY ADDITIONAL RENTAL UNDER THE SUBLEASE DOES NOT CONSTITUTE AN OBLIGATION OF THE COUNTY FOR WHICH THE COUNTY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE COUNTY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. NEITHER THE SERIES 2005 CERTIFICATES NOR THE OBLIGATION OF THE COUNTY TO MAKE BASE RENTAL PAYMENTS OR TO PAY ADDITIONAL RENTAL UNDER THE SUBLEASE CONSTITUTES AN INDEBTEDNESS OF THE COUNTY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

The County's obligation to pay Base Rental Payments is subject to abatement. However, during periods of abatement, any moneys in the Base Rental Payment Fund or in the Certificate Reserve Fund and amounts, if any, received from rental interruption insurance are available to pay Base Rental Payments. See "Security and Sources of Payment for the Series 2005 Certificates – Base Rental Payments" and "– Abatement" herein.

The Series 2005 Certificates

The Series 2005 Certificates will be executed and delivered in the form of fully registered certificates in principal amounts of $5,000 each or any integral multiple thereof. The Series 2005 Certificates will be dated their date of delivery and mature on November 15 in the years set forth on the inside cover page hereof (each, a "Principal Payment Date"). The interest represented by the Series 2005 Certificates will represent the sum of the portions of the Base Rental Payments designated as interest components coming due on May 15 and November 15 of each year, commencing on May 15, 2006 (each, an "Interest Payment Date"). The principal represented by the Series 2005 Certificates will represent the sum of the portions of the Base Rental Payments designated as principal components coming due on the Principal Payment Date in each year.

The Series 2005 Certificates will be issued in book-entry form only and, when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Series 2005 Certificates. Individual purchases of the Series 2005 Certificates will be made in book-entry form only. Purchasers of the Series 2005 Certificates will not receive certificates representing their ownership interests in the Series 2005 Certificates purchased. Principal and interest payments represented by the Series 2005 Certificates are payable directly to DTC by the Trustee. Upon receipt of payments of principal and interest, DTC will in turn distribute such payments to the beneficial owners of the Series 2005 Certificates. See "The Series 2005 Certificates – General" herein and Appendix D – "Book-Entry System" attached hereto.

Financial Guaranty Insurance Policy

Payment of principal and interest with respect to the Series 2005 Certificates when due will be insured by a financial guaranty insurance policy (the "Insurance Policy") to be issued by Ambac Assurance Corporation (the "Insurer") simultaneously with the delivery of the Series 2005 Certificates. See "Certificate Insurance" herein and Appendix F – "Form of Financial Guaranty Insurance Policy" attached hereto.

Tax Matters

In the opinion of Orrick, Herrington & Sutcliffe LLP, Special Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest evidenced by the Series 2005 Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Special Counsel, interest evidenced by the Series 2005 Certificates is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Special Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Special Counsel expresses no opinion regarding any other tax consequences related to the ownership of, or accrual or receipt of interest evidenced by, the Series 2005 Certificates. See "Tax Matters" herein.

Continuing Disclosure

The County has agreed to provide, or cause to be provided, to each nationally recognized municipal securities information repository and any public or private repository or entity designated by the State as a state repository for purposes of Rule 15c2-12(b)(5) (the "Rule") adopted by the Securities and Exchange Commission (each, a "Repository") certain annual financial information and operating data and, in a timely manner, notice of certain material events. These covenants have been made in order to assist the Underwriters in complying with the Rule. See "Continuing Disclosure" herein for a description of the specific nature of the annual report and notices of material events and a summary description of the terms of the disclosure agreement pursuant to which such reports are to be made.

Forward-Looking Statements

Certain statements included or incorporated by reference in the Official Statement constitute "forward-looking statements." Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Although such expectations reflected in such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. The County is not obligated to issue any updates or revisions to the forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based occur.

Miscellaneous

The Series 2005 Certificates will be offered when, as and if executed and delivered, and received by the Underwriters, subject to the approval as to their legality by Special Counsel and certain other conditions.

The description herein of the Trust Agreement, the Lease, the Sublease and the Assignment Agreement and any other agreements relating to the Series 2005 Certificates are qualified in their entirety by reference to such documents, and the descriptions herein of the Series 2005 Certificates are qualified in their entirety by the form thereof and the information with respect thereto included in such documents. See Appendix C – "Summary of Principal Legal Documents" attached hereto. Copies of the documents are on file and available for inspection at the Corporate Trust Office of the Trustee at Zions First National Bank, 550 South Hope Street, Suite 2650, Los Angeles, California 90071.

The information and expressions of opinion herein speak only as of their date and are subject to change without notice. Neither the delivery of this Official Statement nor any sale made hereunder nor any future use of this Official Statement shall, under any circumstances, create any implication that there has been no change in the affairs of the County since the date hereof.

The presentation of information, including tables of receipt of revenues, is intended to show recent historical information and is not intended to indicate future or continuing trends in the financial position or other affairs of the County. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue or be repeated in the future.

THE PROPERTY

The North County Regional Center (the "Regional Center") located in Vista, California, is a complex that houses courtrooms, a detention center and various support facilities. The Regional Center was renovated and expanded commencing on May 1997. The Property is comprised of the expansion of the Regional Center, which consisted of the construction of a five-story 224,659 square foot building that houses 12 criminal and civil courtrooms, judge's chambers, jury lounge and space for the court clerks, District Attorney, Sheriff Court Service's, and Probation Department and the fifth district Supervisor's office and adjacent parking. The expansion was completed in February of 1999. The remodel of the original courthouse was completed in 2000.

PLAN OF FINANCE

The Series 2005 Certificates are being issued to defease all outstanding maturities of the Prior Certificates and to prepay on November 15, 2006 the Prior Certificates maturing after November 15, 2006. A portion of the proceeds of the Series 2005 Certificates will be deposited into the Escrow Account established under the Escrow Agreement, dated as of September 1, 2005 (the "Escrow Agreement"), by and between the County and U.S. Bank National Association (the "Escrow Agent"), as escrow agent. Such amounts, together with amounts transferred from certain funds held under the Trust Agreement, dated as of December 1, 1996 (the "Prior Trust Agreement"), by and between the Corporation and U.S. Bank National Association, as successor trustee thereunder (the "Prior Trustee"), will be invested in cash and defeasance securities authorized under the Prior Trust Agreement (collectively, the "Defeasance Securities"). The Defeasance Securities will be scheduled to mature in such amounts and at such times and pay interest at such rates, together with amounts held under the Prior Trust Agreement, as to provide amounts sufficient to pay principal and interest with respect to the Prior Certificates due and payable through November 15, 2006 and to pay on November 15, 2006 the prepayment price of 102% of the principal amount thereof with respect to the Prior Certificates maturing after November 15, 2006.

The Prior Certificates to be defeased are set forth in the following table:

PRIOR CERTIFICATES

Maturity Date (November 15)	**Principal Amount**	**CUSIP***
2005	$ 1,390,000	797391LW7
2006	1,470,000	797391LX5
2007	1,545,000	797391LY3
2008	1,625,000	797391LZ0
2009	1,705,000	797391MA4
2010	1,790,000	797391MB2
2011	1,880,000	797391MC0
2014	6,270,000	797391ME6
2019	12,920,000	797391MF3

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* CUSIP data, copyright 2005, American Bankers Association. CUSIP data herein is set forth for convenience of reference only. Neither the Corporation, the County nor the Underwriters assume any responsibility for the accuracy of such data.

Upon deposit of the Defeasance Securities pursuant to the Escrow Agreement and instructions to the Escrow Agent in accordance with the defeasance provisions of the Prior Trust Agreement, the owners of the Prior Certificates will cease to be entitled to the pledge of and lien on the base rental payments with respect to the Prior Certificates and the Prior Trust Agreement will thereupon cease, terminate and become void and be discharged and satisfied in accordance with the terms of the Prior Trust Agreement. Grant Thornton LLP, a firm of independent certified public accountants, will verify the mathematical computations used to determine the sufficiency of the deposits into the Escrow Fund. See "Verification of Mathematical Computations" herein.

ESTIMATED SOURCES AND USES OF FUNDS

The proceeds of the Series 2005 Certificates and certain other amounts are expected to be applied approximately as follows:

Sources:	
Principal Amount of Certificates	$28,210,000.00
Net Original Issue Premium	1,307,956.50
Transfer From Amounts Held Under Prior Trust Agreement	5,841,992.77
Total Sources	$35,359,949.27
Uses:	
Escrow Account	$32,075,978.26
Certificate Reserve Fund	2,725,837.50
Administrative Expense Fund	20,000.00
Costs of Issuance [(1)]	538,133.51
Total Uses	$35,359,949.27

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(1) Includes underwriters' discount, rating agencies fees, financial advisor fees, title insurance fees, legal fees, trustee fees, verification agent fees, bond issuance premium, printing costs and other costs of issuance.

THE SERIES 2005 CERTIFICATES

The following is a summary of certain provisions of the Series 2005 Certificates. Reference is made to the Series 2005 Certificates for the complete text thereof and to the Trust Agreement for a more detailed description of such provisions. The discussion herein is qualified by such reference. See Appendix C – "Summary of Principal Legal Documents" attached hereto.

General

The Series 2005 Certificates will be dated their date of delivery and principal with respect to the Series 2005 Certificates will be payable on the dates set forth on the inside cover page of this Official Statement. The interest represented by the Series 2005 Certificates will represent the sum of the portions of the Base Rental Payments designated as interest components coming due on the Interest Payment Dates in each year. The principal represented by the Series 2005 Certificates will represent the sum of the portions of the Base Rental Payments designated as principal components coming due on the Principal Payment Date in each year. Interest with respect to the Series 2005 Certificates will be payable semiannually on each Interest Payment Date and will be computed on the basis of a 360-day year of twelve 30-day months.

Book-Entry System

The Series 2005 Certificates will be executed and delivered in the form of fully registered certificates in principal amounts of $5,000 or any integral multiple thereof. The Series 2005 Certificates will be issued in book-entry form only and, when delivered, will be registered in the name of Cede & Co., as nominee of DTC, which will act as securities depository for the Series 2005 Certificates. Individual purchases of the Series 2005 Certificates will be made in book-entry form only. Purchasers of the Series 2005 Certificates will not receive certificates representing their ownership interests in the Series 2005 Certificates purchased. Principal and interest payments represented by the Series 2005 Certificates are payable directly to DTC by the Trustee. Upon receipt of payments of principal and interest, DTC will in turn distribute such payments to the beneficial owners of the Series 2005 Certificates. See Appendix D – "Book-Entry System" attached hereto.

Prepayment

Optional Prepayment. The Series 2005 Certificates maturing on and after November 15, 2016 are subject to optional prepayment prior to maturity on and after November 15, 2015 at the option of the County, in whole, or in part, on any date, at a prepayment price equal to the principal amount of the Series 2005 Certificates to be prepaid without premium, plus accrued but unpaid interest to the prepayment date.

Extraordinary Prepayment. The Series 2005 Certificates are subject to prepayment on any date prior to their respective maturity dates, as a whole or in part, at the written direction of the County, from the net proceeds of any insurance or condemnation award with respect to the Property or portions thereof, at a prepayment price equal to the sum of the principal amount represented thereby plus accrued interest represented thereby to the date fixed for prepayment, without premium.

Notice of Prepayment. When prepayment is authorized pursuant to the Trust Agreement the Trustee shall give notice, at the expense of the County, of the prepayment of the Series 2005 Certificates. The notice of prepayment shall specify: (a) the Series 2005 Certificates or designated portions thereof (in the case of prepayment of the Series 2005 Certificates in part but not in whole) which are to be prepaid, (b) the date of prepayment, (c) the place or places where the prepayment will be made, including the name and address of any paying agent, (d) the prepayment price, (e) the CUSIP numbers assigned to the Series 2005 Certificates to be prepaid, (f) the numbers of the Series 2005 Certificates to be prepaid in whole or in part (if less than all of the Series 2005 Certificates of a maturity are to be prepaid) and, in the case of any Series 2005 Certificates to be prepaid in part only, the amount of such Series 2005 Certificates to be prepaid, and (g) the stated Principal Payment Date of each Series 2005 Certificate to be prepaid in whole or in part. Such notice of prepayment shall further state that on the specified date there shall become due and payable upon each Series 2005 Certificate or portion thereof being prepaid the prepayment price, together with interest accrued to the prepayment date thereon, and that from and after such date interest represented thereby shall cease to accrue and be payable. A notice of prepayment may provide (a) that the prepayment is conditioned upon the occurrence of one or more events specified in the notice and (b) that such notice may be revoked, without any cause, at any time prior to the prepayment date. The Trustee shall give the foregoing notice at least 30 but not more than 60 days before to the prepayment date to the respective Owners of Certificates designated for prepayment by first class mail, postage prepaid, at their addresses appearing on the registration books of the Trustee as of the close of business on the day before such notice of prepayment is given.

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2005 CERTIFICATES

Base Rental Payments

General. The Series 2005 Certificates represent the aggregate principal components of the Base Rental Payments, each evidencing and representing a proportionate, undivided interest in such Base Rental Payments to be made by the County under the Sublease. The County is required under the Sublease to make Base Rental Payments subject to the provisions of the Sublease related to abatement. The County has covenanted in the Sublease to take such action as may be necessary to include all Base Rental Payments and Additional Rental with respect to the Property in its operating budget for each fiscal year commencing after the date of the Sublease and to make the necessary appropriations for such Base Rental Payments and Additional Rental. Base Rental Payments are scheduled to be paid as set forth herein. See "– Base Rental Payments Schedule" herein.

THE OBLIGATION OF THE COUNTY TO MAKE BASE RENTAL PAYMENTS AND TO PAY ADDITIONAL RENTAL UNDER THE SUBLEASE DOES NOT CONSTITUTE AN OBLIGATION OF THE COUNTY FOR WHICH THE COUNTY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE COUNTY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. NEITHER THE SERIES 2005 CERTIFICATES NOR THE OBLIGATION OF THE COUNTY TO MAKE BASE RENTAL PAYMENTS OR TO PAY ADDITIONAL RENTAL UNDER THE SUBLEASE CONSTITUTES AN INDEBTEDNESS OF THE COUNTY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

The Trustee, pursuant to the Trust Agreement, will receive Base Rental Payments for the benefit of the Owners. Base Rental Payments are scheduled to be sufficient to pay, when due, amounts designated as principal and interest represented by the Series 2005 Certificates. Except as expressly provided in the Trust Agreement, the Trustee will not have any obligation or liability to the Owners with respect to the payment when due of the Base Rental Payments by the County, or with respect to the performance by the County or the Corporation of the other agreements and covenants required to be performed by them, respectively contained in the Lease or the Sublease or in the Trust Agreement. Additional Rental payable by the County under the Sublease include, among others, amounts sufficient to pay certain taxes and assessments and insurance premiums, and certain administrative costs.

The lease payments under the Sublease are absolutely net to the Corporation so that the Sublease will yield to the Corporation the lease payments, free of any charges, assessments or impositions of any kind charged, assessed or imposed on or against the Property, and without counterclaim, deduction, defense, deferment or set-off by the County except as specifically otherwise provided in the Sublease. The Sublease provides that the covenants of the County thereunder are deemed to be duties imposed by law, and it further provides that it will be the duty of each and every public official of the County to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the County to carry out and perform the covenants and agreements of the County contained in the Sublease.

Upon the occurrence of an Event of Default under the Sublease, the Trustee must thereafter maintain the Sublease in full force and effect and may only recover rent and other monetary charges as they become due, all without terminating the County's right to possession of the Property regardless of whether or not the County has abandoned the Property; THIS IS THE SOLE AND EXCLUSIVE REMEDY AVAILABLE AGAINST THE COUNTY UNDER THE SUBLEASE OR OTHERWISE. The Trustee may not exercise any right of entry upon or repossession of the Property and there is no remedy of acceleration of Base Rental Payments over the term of the Sublease.

THE OBLIGATION OF THE COUNTY TO MAKE BASE RENTAL PAYMENTS AND TO PAY ADDITIONAL RENTAL UNDER THE SUBLEASE DOES NOT CONSTITUTE AN OBLIGATION OF THE COUNTY FOR WHICH THE COUNTY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE COUNTY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. NEITHER THE SERIES 2005 CERTIFICATES NOR THE OBLIGATION OF THE COUNTY TO MAKE BASE RENTAL PAYMENTS OR TO PAY ADDITIONAL RENTAL UNDER THE SUBLEASE CONSTITUTES AN INDEBTEDNESS OF THE COUNTY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION. SEE APPENDIX C – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – THE SUBLEASE – RENTAL PAYMENTS – RENTAL ABATEMENT" ATTACHED HERETO.

Base Rental Payments Schedule. The Sublease requires that each year's semi-annual Base Rental Payments be deposited with the Trustee, as assignee of the Corporation, on or before each July 5 of such fiscal year (or the next Business Day if July 5 does not fall on a Business Day), commencing on July 5, 2006, through the term of the Sublease. Pursuant to the Trust Agreement and the Sublease, the Base Rental Payments will be deposited in the Base Rental Payment Fund and applied to principal and interest with respect to the Series 2005 Certificates as they become due.

A table of Base Rental Payments under the Sublease is set forth on the following page.

BASE RENTAL PAYMENTS

Payment Date	Principal	Interest	Total Base Rental Payments[(1)]
5/15/06	-	$824,036.60	$ 824,036.60
11/15/06	$1,550,000	600,512.50	2,150,512.50
5/15/07	-	575,325.00	575,325.00
11/15/07	1,600,000	575,325.00	2,175,325.00
5/15/08	-	549,325.00	549,325.00
11/15/08	1,655,000	549,325.00	2,204,325.00
5/15/09	-	520,650.00	520,650.00
11/15/09	1,710,000	520,650.00	2,230,650.00
5/15/10	-	490,050.00	490,050.00
11/15/10	1,780,000	490,050.00	2,270,050.00
5/15/11	-	452,225.00	452,225.00
11/15/11	1,850,000	452,225.00	2,302,225.00
5/15/12	-	415,600.00	415,600.00
11/15/12	1,925,000	415,600.00	2,340,600.00
5/15/13	-	376,125.00	376,125.00
11/15/13	2,010,000	376,125.00	2,386,125.00
5/15/14	-	338,437.50	338,437.50
11/15/14	2,085,000	338,437.50	2,423,437.50
5/15/15	-	295,675.00	295,675.00
11/15/15	2,180,000	295,675.00	2,475,675.00
5/15/16	-	246,625.00	246,625.00
11/15/16	2,285,000	246,625.00	2,531,625.00
5/15/17	-	189,500.00	189,500.00
11/15/17	2,400,000	189,500.00	2,589,500.00
5/15/18	-	129,500.00	129,500.00
11/15/18	2,525,000	129,500.00	2,654,500.00
5/15/19	-	66,375.00	66,375.00
11/15/19	2,655,000	66,375.00	2,721,375.00

(1) Amounts reflect the aggregate amount of scheduled Base Rental Payments under the Sublease on November 15 of each calendar year and the May 15 of the immediately following calendar year.

Certificate Reserve Fund

The Certificate Reserve Fund shall be held by the Trustee and shall be kept separate and apart from all other funds held by the Trustee. The Certificate Reserve Fund must be funded in the amount of the Certificate Reserve Fund Requirement and must be used and withdrawn by the Trustee solely for the purposes and at the times specified in the Trust Agreement. The "Certificate Reserve Fund Requirement" is, as of any date of calculation, an amount initially equal to $2,725,837.50 but in no event less than the lesser of (i) an amount equal to the largest Annual Debt Service for all future Lease Years, beginning in the Lease Year in which the calculation is made, (ii) 10% of the proceeds of the Series 2005 Certificates and any Additional Certificates, in accordance with the Tax Certificate to be made by the County under the Sublease until the final maturity of the Outstanding Series 2005 Certificates, or (iii) 125% of the average of the Annual Debt

Service for all Lease Years, including the Lease Year in which the calculation is made. "Lease Year" means the period from each November 15 to and including the following November 14. "Annual Debt Service" means, for each Lease Year, an amount equal to the sum of all Base Rental Payments due in such Lease Year.

At the option of the County, one or more a letter of credit, line of credit, surety bond, insurance policy or similar facility (a "Reserve Fund Credit Facility") may be substituted for the funds held by the Trustee in the Certificate Reserve Fund such that the amount available to be drawn under such Reserve Fund Credit Facilities together with funds remaining in the Certificate Reserve Fund satisfies the Certificate Reserve Fund Requirement.

Insurance

The Sublease provides that the County will secure and maintain or cause to be secured and maintained, at all time with insurers of recognized responsibility, all coverage on the Property required under the Sublease. Such insurance includes "all risk" insurance against loss or damage to the Property which must be maintained at any time in an amount per occurrence (the "Per Occurrence Amount") at least equal to the lesser of (1) the cumulative replacement values of the Property, and, in the case of a policy covering more than the Property, as permitted by the Sublease, any other property which is the subject of a lease, installment purchase agreement or other financing arrangement for which bonds, certificates of participation or other obligations shall have been issued, or (2) the aggregate amount of the principal component of all then-remaining Base Rental Payments payable under the Sublease. Such insurance may include a deductible clause providing for a deductible not to exceed $100,000 for any one loss (except for flood, in which case the deductible may not exceed $250,000 for any one loss). The County may obtain such "all risk" coverage as a joint insured with one or more other public agencies located within or outside of the County which may be limited in an amount per occurrence in the aggregate for insureds in amount at least equal to the Per Occurrence Amount and which may be limited in a cumulative amount of claims per during a 12-month period in the aggregate for all insureds in an amount not less than $500,000,000. The County anticipates that it will secure and maintain "all risk" insurance covering the Property through an insurance policy described in the immediately preceding sentence. As a consequence, the Property will not be covered through stand-alone insurance policies and will rather be covered through an insurance policy that covers multiple properties owned by varying public agencies throughout the State. If there occurs one or more losses or damages to the properties covered by that insurance policy in a given 12-month period that exceeds the annual cumulative limit provided therein and there were also to occur a loss or damage to the Property in the same 12-month period, then the County and the Trustee may be unable to make a claim under such insurance policy for such loss or damage and there may not otherwise be any other insurance covering such loss or damage to the Property.

The County will also obtain rental interruption insurance with respect to the Property, in an amount sufficient at all times to pay the total rent payable under the Sublease for a period of not less than two years' of Base Rental Payments for the Property.

The Sublease provides that the amount of coverage required may be reduced to a smaller amount if an insurance consultant or insurance broker retained by the County provides written advice to the Trustee that, based upon its evaluation of the County's maximum foreseeable loss in the event of a major conflagration, windstorm, explosion, riot flood or similar event, a specified smaller amount is believed to be reasonable given the nature of the risks insured and the proximity of the insured properties to each other. The County is under no obligation to provide insurance against loss or damage occasioned by the perils of earthquake.

For additional information regarding the County's risk management programs, see Appendix A – "County of San Diego Financial, Economic and Demographic Information – County Financial Information –

Risk Management" and Appendix C – "Summary of Principal Legal Documents – The Sublease – Maintenance; Taxes; Insurance and Other Charges – Insurance" attached hereto.

Abatement

Except to the extent of (i) amounts held by the Trustee in the Base Rental Payment Fund or the Certificate Reserve Fund; (ii) amounts received in respect of rental interruption insurance; and (iii) amounts, if any, otherwise legally available to the Trustee for payments in respect of the Series 2005 Certificates or Additional Certificates, during any period in which, by reason of material damage, destruction, title defect, or condemnation, there is substantial interference with the use and possession by the County of any portion of the Property, rental payments due under the Sublease, will be abated to the extent that the annual fair rental value of the portion of the Property, in respect of which there is no substantial interference is less than the annual Base Rental Payments and Additional Rental, in which case rental payments will be abated only by an amount equal to the difference. In the event the County will assign, transfer or sublease any or all of the Property or other rights under the Sublease, as permitted by the Sublease for purposes of determining the fair rental value available to pay Base Rental Payments and Additional Rental, annual fair rental value of the Property will first be allocated to the Sublease as provided in the Sublease. Any abatement of rental payments pursuant to the Sublease will not be considered an Event of Default thereunder. Such abatement will continue for the period commencing with the date of such damage, destruction, title defect or condemnation and ending with the substantial completion of the work of repair or replacement of the portions of the Property so damaged, destroyed, rendered defective or condemned.

In the event that rental is abated, in whole or in part, pursuant to the Sublease due to damage, destruction, title defect or condemnation of any part of the Property and the County is unable to repair, replace or rebuild either of the Property from the proceeds of insurance, if any, the County agrees to apply for and to use its best efforts to obtain any appropriate state and/or federal disaster relief to obtain funds to repair, replace or rebuild the Property.

Substitution

The County may amend the Sublease to substitute other real property and/or improvements (the "Substituted Property") for existing Property and/or to remove real property (including undivided interests therein) and/or improvements from the definition of Property with the consent of the Insurer, which shall not be unreasonably withheld, and upon compliance with all of the conditions set forth in the Sublease. After a Substitution or Removal, the part of the Property for which the Substitution or Removal has been effected shall be released from the leasehold created under the Sublease. See Appendix C – "Summary of Principal Legal Documents – The Sublease – The Property – Substitution or Removal of Property" attached hereto.

Additional Certificates

In addition to the Series 2005 Certificates, the County, the Corporation and the Trustee may, by execution of a Supplemental Trust Agreement without the consent of the Owners, provide for the execution and delivery of Additional Certificates representing additional Base Rental Payments. The Trustee may execute and deliver to or upon the request of the County such Additional Certificates, in such principal amount as shall reflect the additional principal components and interest components of the Base Rental Payments, and the proceeds of such Additional Certificates may be applied to any lawful purposes of the County or the Corporation, but such Additional Certificates may only be executed and delivered upon compliance by the County with the provisions set forth in the Trust Agreement and subject to the specific conditions set forth in the Trust Agreement, which are made conditions precedent to the execution and delivery of any such Additional Certificates, including, but not limited to, prior to or concurrently with the execution and delivery of the Additional Certificates, the County and the Corporation must enter into an amendment to the Lease and the Sublease providing for an increase in the Base Rental Payments to be made thereunder subject to the limitations set forth therein. See Appendix C – "Summary of Principal Legal Documents - Trust Agreement - Additional Certificates" attached hereto.

CERTIFICATE INSURANCE

The following information has been furnished by the Insurer for use in this Official Statement. The County and the Underwriters cannot and do not make any representation as to the accuracy or completeness of such information or the absence of material adverse changes in such information subsequent to the date hereof. Reference is made to Appendix F for a specimen of the Insurance Policy attached hereto.

Payment Pursuant to Financial Guaranty Insurance Policy

The Insurer has made a commitment to issue the Insurance Policy relating to the Series 2005 Certificates effective as of the date of execution and delivery of the Series 2005 Certificates. Under the terms of the Insurance Policy, the Insurer will pay to The Bank of New York, in New York, New York or any successor thereto (the "Insurance Trustee") that portion of the principal and interest on the Series 2005 Certificates which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the County (as such terms are defined in the Insurance Policy). The Insurer will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which the Insurer shall have received notice of Nonpayment from Trustee. The insurance will extend for the term of the Series 2005 Certificates and, once issued, cannot be canceled by the Insurer.

The Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Series 2005 Certificates become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Series 2005 Certificates, the Insurer will remain obligated to pay principal of and interest on outstanding Series 2005 Certificates on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the Series 2005 Certificates, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Trustee has notice that any payment of principal or interest on a Series 2005 Certificate which has become Due for Payment and which is made to a Holder by or on behalf of the County has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Insurance Policy does **not** insure any risk other than Nonpayment, as defined in the Insurance Policy. Specifically, the Insurance Policy does **not** cover:

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity.

2. payment of any redemption, prepayment or acceleration premium.

3. nonpayment of principal or interest caused by the insolvency or negligence of any Trustee or bond registrar, if any.

If it becomes necessary to call upon the Insurance Policy, payment of principal requires surrender of Series 2005 Certificates to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Series 2005 Certificates to be registered in the name of the Insurer to the extent of the payment under the Insurance Policy. Payment of interest pursuant to the Insurance Policy requires proof of Holder entitlement to interest payments and an appropriate assignment of the Holder's right to payment to the Insurer.

Upon payment of the insurance benefits, the Insurer will become the owner of the Series 2005 Certificates, appurtenant coupon, if any, or right to payment of principal or interest on such Series 2005 Certificates and will be fully subrogated to the surrendering Holder's rights to payment.

In the event that the Insurer were to become insolvent, any claims arising under the Insurance Policy would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

Ambac Assurance Corporation

The Insurer is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam and the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately $8,720,000,000 (unaudited) and statutory capital of approximately $5,287,000,000 (unaudited) as of June 30, 2005. Statutory capital consists of the Insurer's policyholders' surplus and statutory contingency reserve. Standard & Poor's Credit Markets Services, a Division of The McGraw-Hill Companies, Inc., Moody's Investors Service and Fitch Ratings have each assigned a triple-A financial strength rating to the Insurer.

The Insurer has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by the Insurer will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by the Insurer under policy provisions substantially identical to those contained in its Insurance Policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the County of the Series 2005 Certificates. **No representation is made by the Insurer regarding the federal income tax treatment of payments that are made by the Insurer under the terms of the Insurance Policy due to nonappropriation of funds by the County.**

The Insurer makes no representation regarding the Series 2005 Certificates or the advisability of investing in the Series 2005 Certificates and makes no representation regarding, nor has it participated in the preparation of, this Official Statement other than the information supplied by the Insurer and presented under the heading "Certificate Insurance" and in Appendix F - "Form of Financial Guaranty Insurance Policy" attached hereto.

Available Information

The parent company of the Insurer, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied at the

SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at http://www.sec.gov that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc. (the "NYSE"), 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices and its telephone number are One State Street Plaza, 19th Floor, New York, New York 10004 and (212) 668-0340.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the SEC (File No. 1-10777) are incorporated by reference in this Official Statement:

1. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004 and filed on March 15, 2005;

2. The Company's Current Report on Form 8-K dated April 5, 2005 and filed on April 11, 2005;

3. The Company's Quarterly Report on Form 8-K dated and filed on April 20, 2005;

4. The Company's Current Report on Form 8-K dated May 3, 2005 and filed on May 5, 2005;

5. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2005 and filed on May 10, 2005;

6. The Company's Current Report on Form 8-K dated and filed on July 20, 2005;

7. The Company's Current Report on Form 8-K dated July 28, 2005 and filed on August 2, 2005; and

8. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 2005 and filed on August 9, 2005.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in "Available Information."

STATE OF CALIFORNIA BUDGET INFORMATION

The following information concerning the State of California's budgets has been obtained from publicly available information which the County believes to be reliable; however, the County takes no responsibility as to the accuracy or completeness thereof and has not independently verified such information. Information about the State Budget is regularly available at various State-maintained websites. Text of the budget may be found at the Department of Finance website, www.dof.ca.gov, under the heading "California Budget." An impartial analysis of the budget is posted by the Office of the Legislative Analyst at www.lao.ca.gov. In addition, various State of California official statements, many of which contain a summary of the current and past State budgets, may be found at the website of the State Treasurer, www.treasurer.ca.gov. The information referred to is prepared by the respective State agency maintaining each website and not by the County or the Underwriter, and the County and the Underwriter can take no responsibility for the continued accuracy of the internet addresses or for the accuracy or timeliness of information posted there, and such information is not incorporated herein by these references.

State Budget for Fiscal Year 2004-05

On July 31, 2004, Governor Schwarzenegger signed the 2004-05 Budget Act (the "2004-05 Budget Act") into law. The 2004-05 Budget Act assumes General Fund revenues will increase from $76.6 billion in Fiscal Year 2003-04 to $77.3 billion in Fiscal Year 2004-05. General Fund expenditures are expected to increase from $77.6 billion in Fiscal Year 2003-04 to $78.8 billion in Fiscal Year 2004-05, or approximately 10 percent. The 2004-05 Budget Act projects a year-end reserve of $678 million as of June 30, 2005. Approximately $268 million of the reserve is designated for Proposition 98 and the remaining $410 million is designated for non-Proposition 98 purposes.

Certain of the features of 2004-05 Budget Act affecting local governments include the following:

1. The Vehicle License Fee (the "VLF") rate is lowered from 2.0 percent to 0.65 percent and the VLF backfill is eliminated. The State will provide increased property tax revenues to compensate for the reduction in revenues local governments previously received from VLF.

2. A diversion of $1.3 billion from local governments in Fiscal Years 2004-05 and 2005-06, including $350 million from counties, $350 million from cities, $350 million from special districts and $250 from redevelopment agencies. Each county's reduction reflects its proportionate share of statewide county VLF revenues, property taxes and sales taxes.

3. The 2004-05 Budget Act proposed a constitutional amendment to protect certain local government revenues ("Proposition 1A"), which was approved by the voters in November 2004. Pursuant to Proposition 1A, the State may not reduce local governments' share of the property tax below current levels, but may borrow up to 8% of local property tax revenues in the event of a fiscal emergency, provided the amount borrowed would be repaid within three years and certain other conditions are satisfied. Proposition 1A also prohibits the State from reallocating local sales taxes.

State Budget for Fiscal Year 2005-06

On July 11, 2005, Governor Schwarzenegger signed the 2005-06 Budget Act (the "2005-06 Budget Act") into law. The 2005-06 Budget Act assumes General Fund revenues will increase from $79.7 billion in Fiscal Year 2004-05 to $84.3 billion in Fiscal Year 2005-06. General Fund expenditures are expected to increase from $81.7 billion in Fiscal Year 2004-05 to $90.0 billion in Fiscal Year 2005-06. The 2005-06 Budget Act projects a reserve for liquidation of encumbrances of $641 million and a special fund reserve for economic uncertainties of $1,302 million, including $900 million set aside for refunds and accelerations of amnesty related revenue in Fiscal Year 2006-07.

Certain of the features of 2005-06 Budget Act affecting local governments include the following:

1. Repays $1.3 billion owed by the State to local governments as a result of the suspension of VLF payments by the State during the first three months of Fiscal Year 2003-04. See "State of California Budget Information - State Budget for Fiscal Year 2004-05" herein.

2. Reinstates the transfer, eliminated in the Governor's 2005-06 proposed budget, of gasoline sales tax revenue from the General Fund to transportation purposes pursuant to Proposition 42, in the amount of $1.3 billion, including $254 million for local street and road projects.

3. Includes $220 million for special education mental health services. This amount includes $120 million in General Fund monies to counties that provide services under State mandates, representing $60 million for 2004-05 costs and $60 million for 2005-06 costs, and $100 million in special education funding for services required by the Individuals with Disabilities Education Act, $69 million of which in federal funds is designated for counties to provide services under contract with local agencies.

November Special Election

On June 13, 2005, the Governor ordered a statewide special election to be held on November 8, 2005. Among the initiatives that have qualified for consideration on the ballot for the special election is an initiative that, if approved by the electorate, would make major substantive modifications to the State budgetary process. This initiative includes modifications to the Proposition 98 Guarantee which, if approved, would allow the State Legislature to suspend the Proposition 98 Guarantee without the requirement of repayment of the suspended amounts in later years. In addition, this initiative would make other modifications to the formulae that calculate the Proposition 98 Guarantee.

Future State Budgets

No prediction can be made by the County as to whether the State will continue to encounter budgetary problems in this or in any future Fiscal Years, and if it were to do so, it is not clear what measures would be taken by the State to balance its budget, as required by law. In addition, the County cannot predict the final outcome of future State budget negotiations, the impact that such budgets will have on its finances and operations or what actions will be taken in the future by the State Legislature and Governor to deal with changing State revenues and expenditures. Current and future State budgets will be affected by national and State economic conditions and other factors, including the current economic downturn, over which the County has no control.

THE CORPORATION

The Corporation was organized on June 12, 1984, as a nonprofit public benefit corporation pursuant to the Nonprofit Public Corporation Law of the State of California. The Corporation's purpose is to render assistance to the County in its acquisition of real property and improvements on behalf of the County. Under its articles of incorporation, the Corporation has all powers conferred upon nonprofit public benefit corporations by the laws of the State of California, provided that it will not engage in any activity other than that which is necessary or convenient for, or incidental to the purposes for which it was formed. The Corporation has no taxing authority. The Corporation has no liability to the Owners of the Series 2005 Certificates and has pledged none of its moneys, funds or assets toward the Base Rental Payments or Additional Rental under the Sublease, or toward the payment of any amount due in connection with the Series 2005 Certificates.

The Corporation is a separate legal entity from the County. It is governed by a five-member Board of Directors (the "Board of Directors") appointed by the Board of Supervisors of the County. The Corporation has no employees. All staff work is performed by employees of the County. The members of the Corporation's Board of Directors are Michel Anderson, Timothy Considine, Jeff Kane, Barry I. Newman and David E. Devol.

The County's Chief Financial Officer, Treasurer-Tax Collector, the County Counsel, and other County employees are available to provide staff support to the Corporation.

The Corporation has not entered into any material financing arrangements with respect to the Series 2005 Certificates other than those referred to in this Official Statement. Further information concerning the Corporation may be obtained from the San Diego County Capital Asset Leasing Corporation office at 1600 Pacific Highway, Room 166, San Diego, California 92101.

RISK FACTORS

The following factors, along with all other information in this Official Statement, should be considered by potential investors in evaluating the Series 2005 Certificates.

Not a Pledge of Taxes

The obligation of the County to pay the Base Rental Payments or Additional Rental does not constitute an obligation of the County for which the County is obligated to levy or pledge any form of taxation or for which the County has levied or pledged any form of taxation. The obligation of the County to pay Base Rental Payments or Additional Rental does not constitute a debt or indebtedness of the County, the State of California or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction.

Although the Sublease does not create a pledge, lien or encumbrance upon the funds of the County, the County is obligated under the Sublease to pay Base Rental Payments from any source of legally available funds (subject to certain exceptions) and the County has covenanted in the Sublease that, for as long as the Property is available for its use and possession, it will make the necessary annual appropriations within its budget for all Base Rental Payments. The County is currently liable on other obligations payable from general revenues.

Additional Obligations of the County

The County has the capability to enter into other obligations which may constitute additional charges against its revenues. To the extent that additional obligations are incurred by the County, the funds available to make Base Rental Payments may be decreased.

The Base Rental Payments and other payments due under the Sublease (including payment of costs of repair and maintenance of the Property, taxes and other governmental charges levied against the Property) are payable from funds lawfully available to the County. In the event that the amounts which the County is obligated to pay in a fiscal year exceed the County's revenues for such year, the County may choose to make some payments rather than making other payments, including Base Rental Payments, based on the perceived needs of the County. The same result could occur if, because of California Constitutional limits on expenditures, the County is not permitted to appropriate and spend all of its available revenues.

Default; Remedies Upon Default; No Right of Relet

Upon the occurrence of an Event of Default under the Sublease, the Trustee must thereafter maintain the Sublease in full force and effect and may only recover rent and other monetary charges as they become due, all without terminating the County's right to possession of the Property regardless of whether or not the County has abandoned the Property; THIS IS THE SOLE AND EXCLUSIVE REMEDY AVAILABLE AGAINST THE COUNTY UNDER THE SUBLEASE OR OTHERWISE IN THE EVENT OF A DEFAULT

UNDER THE SUBLEASE. There is no remedy of acceleration of the total Base Rental Payments due over the term of the Sublease, nor is the Trustee empowered to sell the Property and use the proceeds of such sale to prepay the Series 2005 Certificates or pay debt service thereon. The County shall remain liable and agrees to keep or perform all covenants and conditions contained in the Sublease to be kept or performed by the County and, to pay the rent to the end of the term of the Sublease and further agrees to pay such rent and/or rent deficiency punctually at the same time and in the same manner as provided in the Sublease for the payment of rent thereunder (without acceleration). The Trustee would be required to seek a separate judgment each year for that year's defaulted Base Rental Payments. Any such suit for money damages would be subject to limitations on legal remedies against counties in the State, including a limitation on enforcement of judgments against funds of a fiscal year other than the fiscal year in which the Base Rental Payments were due and against funds needed to serve the public welfare and interest.

Limitations on Remedies

The rights of the Owners of the Series 2005 Certificates are subject to the limitations on legal remedies against counties in the State, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest. Additionally, enforceability of the rights and remedies of the owners of the Series 2005 Certificates, and the obligations incurred by the County, may become subject to the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect, equity principles which may limit the specific enforcement under State law of certain remedies, the exercise by the United States of America of the powers delegated to it by the Constitution, the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose and the limitations on remedies against counties in the State. Bankruptcy proceedings, or the exercise of powers by the federal or State government, if initiated, could subject the owners of the Series 2005 Certificates to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation, or modification of their rights.

On January 24, 1996, the United States Bankruptcy Court for the Central District of California held in the case of *County of Orange v. Merrill Lynch* that a State statute providing for a priority of distribution of property held in trust conflicted with, and was preempted by, federal bankruptcy law. In that case, the court addressed the priority of the disposition of moneys held in a county investment pool upon bankruptcy of the county, but was not required to directly address the state statute that provides for the lien in favor of holders of tax and revenue anticipation notes. The County may invest, and direct the Trustee to invest, amounts held in the Certificate Reserve Fund, the Base Rental Payment Fund and the Administrative Expense Fund in the Treasury Pool, which amounts are pledged to repay the Series 2005 Certificates. In the event of a petition for the adjustment of County debts under Chapter 9 of the Bankruptcy Code, a court might hold that the Owners of the Series 2005 Certificates do not have a valid and/or prior lien on the Base Rental Payments where such amounts are deposited in the Treasury Pool and may not provide the Owners of the Series 2005 Certificates with a priority interest in such amounts. In that circumstance, unless the Owners could "trace" the funds that have been deposited in the Treasury Pool, the owners would be unsecured (rather than secured) creditors of the County. There can be no assurance that the Owners could successfully so "trace" the pledged taxes and other revenues.

Abatement

Except to the extent of (i) amounts held by the Trustee in the Base Rental Payment Fund or the Certificate Reserve Fund, (ii) amounts received in respect of rental interruption insurance, and (iii) amounts, if any, otherwise legally available to the Trustee for payments in respect of the Series 2005 Certificates or

Additional Certificates, during any period in which, by reason of material damage, destruction, title defect, or condemnation, there is substantial interference with the use and possession by the County of any portion of the Property, rental payments due under the Sublease shall be abated to the extent that the annual fair rental value of the portion of the Property in respect of which there is no substantial interference is less than the annual Base Rental Payments and Additional Rental, in which case rental payments shall be abated only by an amount equal to the difference. Any abatement of rental payments pursuant to the Sublease will not be considered an Event of Default thereunder. Such abatement will continue for the period commencing with the date of such damage, destruction, title defect or condemnation and ending with the substantial completion of the work of repair or replacement of the portions of the Property so damaged, destroyed, rendered defective or condemned.

Seismic Events

The Property is located within a seismically active area, and damage from an earthquake could be substantial. The County is not obligated under the Sublease to procure and maintain, or cause to be procured and maintained, earthquake insurance on the Property and no assurance can be made that the County will procure and maintain, or cause to be procured and maintained, such insurance. There can be no assurance that earthquake insurance on the Property, if any, can be renewed or will be maintained by the County in the future, or will be available to pay Base Rental Payments or debt service on the Series 2005 Certificates. If there is no earthquake insurance on the Property and the Property is damaged in an earthquake, the Base Rental Payments would be subject to abatement. See "Risk Factors - Abatement" herein.

The Property may also be at risk from other events of force majeure, such as damaging storms, floods, fires and explosions, strikes, sabotage, riots and spills of hazardous substances, among other events. The County cannot predict what force majeure events may occur in the future. For additional information regarding the County's risk management programs, see Appendix A – "County of San Diego Financial, Economic and Demographic Information – County Financial Information – Risk Management" and Appendix C – "Summary of Principal Legal Documents – The Project Sublease – Maintenance; Taxes; Insurance and Other Charges – Insurance" and "– The Sublease – Maintenance; Taxes; Insurance and Other Charges – Insurance" attached hereto.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, Special Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest evidenced by the Series 2005 Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and is exempt from State of California personal income taxes. Special Counsel is of the further opinion that interest evidenced by the Series 2005 Certificates is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Special Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Special Counsel is set forth in Appendix E hereto.

To the extent the issue price of any maturity of the Series 2005 Certificates is less than the amount to be paid at maturity of such Series 2005 Certificates (excluding amounts stated to be interest and payable at least annually over the term of such Series 2005 Certificates), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest evidenced by the Series 2005 Certificates which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Series 2005 Certificates is the first price at which a substantial amount of such maturity of the Series 2005 Certificates is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Series 2005 Certificates accrues daily over the term to maturity of such Series 2005 Certificates on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Series 2005 Certificates to determine taxable gain or loss upon disposition (including sale, prepayment, or payment on maturity) of such Series 2005 Certificates. Beneficial Owners of the Series 2005 Certificates should consult their own tax advisors with respect to the tax consequences of ownership of Series 2005 Certificates with original issue discount, including the treatment of Beneficial Owners who do not purchase such Series 2005 Certificates in the original offering to the public at the first price at which a substantial amount of such Series 2005 Certificates is sold to the public.

Series 2005 Certificates purchased, whether at original execution and delivery or otherwise, for an amount higher than their principal evidenced thereby payable at maturity (or, in some cases, at their earlier prepayment date) ("Premium Certificates") will be treated as having amortizable premium. No deduction is allowable for the amortizable premium in the case of obligations, like those evidenced by the Premium Certificates, the interest with respect to which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner's basis in a Premium Certificate, will be reduced by the amount of amortizable premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Certificates should consult their own tax advisors with respect to the proper treatment of amortizable premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest evidenced by obligations such as the Series 2005 Certificates. The County has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest evidenced by the Series 2005 Certificates will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest evidenced by the Series 2005 Certificates being included in gross income for federal income tax purposes, possibly from the date of original execution and delivery of the Series 2005 Certificates. The opinion of Special Counsel assumes the accuracy of these representations and compliance with these covenants. Special Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring) after the date of execution and delivery of the Series 2005 Certificates may adversely affect the value of, or the tax status of interest evidenced by, the Series 2005 Certificates.

Certain requirements and procedures contained or referred to in the Trust Agreement, the Sublease, the Tax Certificate to be entered into by the County on the date of execution and delivery of the Series 2005 Certificates, and other relevant documents may be changed and certain actions (including, without limitation, prepayment of the Series 2005 Certificates) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Special Counsel expresses no opinion as to any Certificate or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of special counsel other than Orrick, Herrington & Sutcliffe LLP.

Although Special Counsel is of the opinion that interest evidenced by the Series 2005 Certificates is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest evidenced by, the Series 2005 Certificates may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depend upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Special Counsel expresses no opinion regarding any such other tax consequences.

Future legislation, if enacted into law, or clarification of the Code may cause interest evidenced by the Series 2005 Certificates to be subject, directly or indirectly, to federal income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislation or clarification of the Code may also affect the marker price for, or marketability of, the Series 2005 Certificates. Prospective purchasers of the Series 2005 Certificates should consult their own tax advisers regarding any pending or proposed federal tax legislation, as to which Special Counsel expresses no opinion.

The opinion of Special Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Special Counsel's judgment as to the proper treatment of the Series 2005 Certificates for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Special Counsel cannot give and has not given any opinion or assurance about the future activities of the County, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The County has covenanted, however, to comply with the requirements of the Code.

Special Counsel's engagement with respect to the Series 2005 Certificates ends with the execution and delivery of the Series 2005 Certificates, and, unless separately engaged, Special Counsel is not obligated to defend the County or the Beneficial Owners regarding the tax-exempt status of the Series 2005 Certificates in the event of an audit examination by the IRS. Under current procedures, parties other than the County and its appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the County legitimately disagrees may not be practicable. Any action of the IRS, including but not limited to selection of the Series 2005 Certificates for audit, or the course or result of such audit, or an audit of obligations presenting similar tax issues may affect the market price for, or the marketability of, the Series 2005 Certificates, and may cause the County or the Beneficial Owner to incur significant expense.

CERTAIN LEGAL MATTERS

The validity of the Certificates and certain other legal matters are subject to the approval of Orrick, Herrington & Sutcliffe LLP, Special Counsel, and certain other conditions. A copy of the proposed form of opinion of Special Counsel is contained in Appendix E attached hereto. Certain legal matters will be passed upon for the Underwriters by their counsel, Hawkins Delafield & Wood LLP, Los Angeles, California, and for the County, and the Corporation by the County Counsel.

FINANCIAL STATEMENTS

The general purpose financial statements of the County for the Fiscal Year ended June 30, 2004, pertinent sections of which are included in Appendix B to this Official Statement, have been audited by Macias, Gini & Company LLP, independent certified public accountants, as stated in their report appearing in Appendix B. Macias, Gini & Company LLP has not consented to the inclusion of its report in Appendix B and has not undertaken to update its report or to take any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in this Official Statement, and no opinion is expressed by Macias, Gini & Company LLP with respect to any event subsequent to its report dated December 23, 2004.

LITIGATION

No litigation is pending or threatened against the County or the Corporation concerning the validity of the Series 2005 Certificates. The County is not aware of any litigation pending or threatened questioning the political existence of the County or the Corporation or contesting the County's ability to execute and delivery the Series 2005 Certificates or pay the Base Rental Payments pursuant to the Sublease. There are a number of lawsuits and claims pending against the County. Other than as described in this section and in Appendix A, the County does not believe that any of these proceedings could have a material adverse impact upon the financial condition of the County.

RATINGS

Standard & Poor's Ratings Services, a Division of the McGraw-Hill Companies, Inc. ("S&P"), Moody's Investors Service, Inc. ("Moody's") and Fitch Ratings ("Fitch") have assigned the Series 2005 Certificates their ratings of "AAA," "Aaa" and "AAA," respectively, with the understanding that, upon the execution and delivery of the Series 2005 Certificates, the Insurance Policy will be issued by the Insurer. S&P, Moody's and Fitch have assigned the Series 2005 Certificates their underlying ratings of "AA-," "A1" and "AA-," respectively. Such ratings reflect only the views of such organizations and explanations of the significance of such ratings may be obtained only from the organizations at: Standard and Poor's Ratings Services, 55 Water Street, New York, New York 10041, telephone number (212) 438-2000; Moody's Investors Service, Inc. 99 Church Street, New York, New York 10007-2796, telephone number (212) 553-0317. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by the respective rating agencies, if in the judgment of such rating agency circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Series 2005 Certificates.

UNDERWRITING

The Series 2005 Certificates are being purchased by UBS Financial Services, Inc., on behalf of itself and E. J. De La Rosa & Co., Inc. (collectively the "Underwriters"), pursuant to a Purchase Contract with the County (the "Purchase Contract"). The Underwriters have agreed, subject to certain conditions, to purchase the Series 2005 Certificates at a price of $29,361,374.45 (representing the principal amount of the Series 2005 Certificates, plus net original issue premium of $1,307,956.50, less Underwriters' discount of $156,582.05). The Purchase Contract relating to the Series 2005 Certificates provides that the Underwriters will purchase all of the Series 2005 Certificates if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Purchase Contract, the approval of certain legal matters by counsel and certain other conditions. The Underwriters may offer and sell the Series 2005 Certificates to certain dealers and others at prices lower than the offering prices stated on the cover page. The offering prices may be changed from time to time by the Underwriters.

FINANCIAL ADVISOR

RBC Dain Rauscher Inc. served as the Financial Advisor to the County in connection with the execution and delivery of the Series 2005 Certificates. The Financial Advisor to the County has not undertaken to make an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Upon delivery of the Series 2005 Certificates, Grant Thornton LLP, independent certified public accountants, will deliver a report stating that the firm has verified the mathematical accuracy of certain computations relating to the adequacy of the Defeasance Securities and the interest thereon to pay principal and interest with respect to the Prior Certificates due and payable through November 15, 2006 and to pay on November 15, 2006 the prepayment price of 102% of the principal amount thereof with respect to the Prior Certificates maturing after November 15, 2006.

CONTINUING DISCLOSURE

Pursuant to a Continuing Disclosure Agreement with the Trustee (the "Disclosure Agreement"), the County has agreed to provide, or cause to be provided, with respect to each fiscal year of the County, commencing with fiscal year 2004-05, by no later than nine months after the end of the respective fiscal year, to each Repository for purposes of the Rule adopted by the Securities and Exchange Commission (the "SEC") the audited financial statements, if available, or unaudited financial statements (collectively, the "Financial Statements"), and the annual financial information and operating data (the "Annual Report") with respect to the County, for each fiscal year of the County, as described under the section of Appendix A to this Official Statement entitled "County Financial Information."

In addition, the County has agreed to provide, or cause to be provided, to each Repository in a timely manner notice of the following "Listed Events" if determined by the County to be material: (1) principal and interest payment delinquencies; (2) non payment related defaults; (3) unscheduled draws on the debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax exempt status of the security; (7) modifications to rights of holders of the security holders; (8) bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the securities; and (11) rating changes. These covenants have been made in order to assist the Underwriters in complying with the Rule.

The County may satisfy its obligations under the Disclosure Agreement to file any notice, document or information with a Repository by filing the same with any dissemination agent or conduit, including the Municipal Advisory Council of Texas or any other "central post office" or similar entity, assuming or charged with responsibility for accepting notices, documents or information for transmission to such Repository, to the extent permitted by the SEC or SEC staff or required by the SEC.

The County and the Trustee may amend the Disclosure Agreement, and waive any provision thereof, by written agreement of the parties, without the consent of the Owners of the Series 2005 Certificates (except to the extent required under clause 4(ii) below), if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the County or the type of business conducted thereby; (2) the Disclosure Agreement as so amended would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule as of the date of the Disclosure Agreement, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; (3) the County shall have delivered to the Trustee an opinion of Special Counsel, or other nationally recognized counsel expert in federal securities laws, addressed to the County and the Trustee, to the same effect as set for in clause (2) above; and (4) either (i) the County shall have delivered to the Trustee an opinion of Special Counsel, or other nationally recognized counsel expert in federal securities laws, or a determination by a person, in each case unaffiliated with the County (such as Special Counsel or the Trustee) and acceptable to the County, addressed to the County and the Trustee, to the effect that the amendment does not materially impair the interests of the holders of the Series 2005 Certificates or (ii) the holders of the Series 2005 Certificates consent to the amendment to the Disclosure Agreement pursuant to the same procedures as are required for amendments to the Trust Agreement with consent of holders of the Series 2005 Certificates pursuant to the terms of the Trust Agreement as in effect on the date of the Disclosure Agreement. The County shall describe such amendment and the reason therefore in its next annual report filed with the Repositories.

In addition, the County's obligations under the Disclosure Agreement shall terminate upon a legal defeasance or payment in full of all of the Series 2005 Certificates. The provisions of the Disclosure Agreement are intended to be for the benefit of the owners of the Series 2005 Certificates and beneficial owners of the Series 2005 Certificates and shall be enforceable by the Trustee on behalf of such owners and any owners of Series 2005 Certificates, provided that any enforcement action by any such person shall be limited to a right to obtain specific enforcement of the County's obligations under the Disclosure Agreement and any failure by the County to comply with the provisions thereof shall not be an event of default under the Trust Agreement.

The County agreed to provide, or cause to be provided, to each Repository Annual Reports, including its Financial Statements with respect to each fiscal year of the County in connection with the issuance of certain of its outstanding debt obligations. The County did not provide its Annual Report with respect to Fiscal Year 1999-00 for its Certificates of Participation (2000 Information Technology System Financing) and its Reassessment District No. 97-1 (4-S Ranch) Limited Obligation Improvement Bonds by the required filing date. Such Annual Reports were subsequently provided to each Repository. The Annual Report for Fiscal Year 2001-02 with respect to the County's Taxable Pension Obligation Bonds, Series 2002, including financial statements, was not submitted by the required deadline. In addition, the County did not provide financial statements with respect to Fiscal Years 2001-02 and 2002-03 for its outstanding obligations which are identified in the following table when it filed its Annual Reports by their respective required filing dates, most of which are December 27 and the latest of which is January 26 of each year, because the County's financial statements were not available by such dates. The County filed notices of failure to provide required annual financial information as required by the Rule for each of these instances. The County subsequently provided to each Repository its unaudited and audited financial statements with respect to these fiscal years for these Annual Reports. The County has otherwise complied in all material respects in the last five years with each of its previous undertakings with regard to the Rule to provide annual reports or notices of material events, including filing its Annual Reports for Fiscal Year 2003-04 in accordance with the respective continuing disclosure undertakings.

Obligations for which the County Failed to Timely File Complete Annual Reports in
Fiscal Years 2001-02 and 2002-03

$737,340,000 County of San Diego Taxable Pension Obligation Bonds, Series 2002

$26,060,000 Certificates of Participation (2002 Motorola Refunding) (1)

$40,000,000 Certificates of Participation (2001 MTS Tower Refunding)

$51,620,000 Certificates of Participation (2000 Information Technology System Financing)

$15,010,000 Certificates of Participation (1999 East Mesa Refunding)

$73,115,000 Certificates of Participation (1998 Downtown Courthouse Refunding)

$80,675,000 Certificates of Participation (1997 Central Jail Refunding)

$28,035,000 Certificates of Participation (1997 Master Refunding)

$37,580,000 Certificates of Participation (1996 North County Regional Center Expansion and East County Courthouse Detention Facility Conversion)

$52,230,000 Certificates of Participation (1996 Regional Communication System)

Teeter Obligation Tax-Exempt Commercial Paper, Series B

$21,755,000 Reassessment District No. 97-1 (4-S Ranch) Limited Obligation Improvement Bonds

$5,100,000 Redevelopment Agency of the County of San Diego Revenue Bonds, Series 1995 (Gillespie Field Project)

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(1) The continuing disclosure obligation requirement for the Annual Report for this obligation began for Fiscal Year 2002-03. Accordingly, the County was late with respect to this Annual Report only for Fiscal Year 2002-03.

MISCELLANEOUS

Included herein are brief summaries of certain documents and reports, which summaries do not purport to be complete or definitive, and reference is made to such documents and reports for full and complete statements of the contents thereof. This Official Statement is not to be construed as a contract or agreement between the County and the purchasers or owners of any of the Series 2005 Certificates. Any statements made in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended merely as an opinion and not as representations of fact. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in affairs in the County since the date hereof.

The execution and delivery of this Official Statement have been duly authorized by the County.

COUNTY OF SAN DIEGO

By: /s/ Donald F. Steuer
Chief Financial Officer

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APPENDIX A

COUNTY OF SAN DIEGO FINANCIAL, ECONOMIC AND DEMOGRAPHIC INFORMATION

APPENDIX A

COUNTY OF SAN DIEGO FINANCIAL, ECONOMIC AND DEMOGRAPHIC INFORMATION

THE COUNTY

General

The County of San Diego (the "County") is the southernmost major metropolitan area in the State of California. The County covers 4,255 square miles, extending 70 miles along the Pacific Coast from the Mexican border to Orange County, and inland 75 miles to Imperial County. Riverside and Orange Counties form the northern boundary. The County is approximately the geographic size of the State of Connecticut. The County's Fiscal Year 2005-06 adopted General Fund budget is approximately $2.9 billion.

The County was incorporated on February 18, 1850, and functions under a charter adopted in 1933, as subsequently amended from time to time. The County is governed by a five-member Board of Supervisors (the "Board") elected to four-year terms in district nonpartisan elections. The Board of Supervisors appoints the Chief Administrative Officer and the County Counsel. The Chief Administrative Officer appoints the Chief Financial Officer and the Auditor & Controller. Elected officials include the Assessor/Recorder/County Clerk, District Attorney, Sheriff and the Treasurer-Tax Collector.

Many of the County's functions are required under County ordinances or by State or federal mandate. State and federally mandated programs, primarily in the social and health services areas, are directed to be maintained at certain minimum levels, which may, under some conditions, limit the County's ability to control its budget. However, under designated State and federal programs, eligible costs are subject to reimbursement according to specific guidelines.

The County is the delivery system for federal, State and local programs. The County supports a wide range of services to its residents, including, regional services such as medical examiner, jails, elections and public health; health, welfare and human services such as mental health, senior citizen and child welfare services; basic local services such as planning, parks, libraries and Sheriff's patrol to the unincorporated area, and law enforcement by contract and libraries by city's request to incorporated cities; and infrastructure such as roads, waste disposal and flood control to the unincorporated area of the County.

County of San Diego Employees

The following table lists the number of County employees for the years 1996 to 2005:

TOTAL COUNTY EMPLOYEES

Year	Total Employees[1]
1996	18,209
1997[2]	17,457
1998	17,621
1999	17,781
2000	17,288
2001	17,708
2002	19,095
2003	18,605
2004	17,349
2005	16,917

Source: The County.
(1) Includes permanent and temporary employees of the County.
(2) State legislation in 1997 provided that, effective July 1, 1997, financial responsibility for the Court employees was transferred to the State.

County employees are represented by eight unions representing 24 bargaining units. The unions represent approximately 85% of the County's approximately 19,000 employees and include the Deputy Sheriffs' Association of San Diego County; Social Services Union, Local 535, SEIU, AFL-CIO; Deputy District Attorneys Association; San Diego County Probation Officers' Association, SEIU, Local 2028, AFL-CIO and CLC; District Attorney Investigators Association; the Service Employees International Union, Local 2028, AFL-CIO and CLC; San Diego Deputy County Counsels Association and the Public Defender Association of San Diego County.

Labor agreements are in place for most unions, through June 22, 2006 covering approximately 16,000 employees. The Deputy Sheriffs' Association and the District Attorney Investigators Association have agreements through June 21, 2007. The Deputy District Attorneys' Association and the Public Defenders' Association have agreements which expire June 22, 2006. The remaining employees are unrepresented.

COUNTY FINANCIAL INFORMATION

The following is a description of the County's property tax collections, General Fund Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance, General Fund budget, including descriptions of the County's adopted General Fund budget for Fiscal Year 2004-05 and proposed General Fund budget for Fiscal Year 2005-06, the San Diego County Employees' Retirement Association, risk management, litigation and indebtedness.

Ad Valorem Property Taxation

The following table describes the assessed valuation of property within the County subject to taxation for Fiscal Year 1995-96 through Fiscal Year 2004-05:

ASSESSED VALUATION OF PROPERTY SUBJECT TO AD VALOREM TAXATION
Fiscal Years 1995-96 through 2004-05
(In Thousands)

Fiscal Year	Land	Improvements	Personal Property	Gross Assessed Valuation	Exemption[1]	Net Assessed Valuation for Tax Purposes[2]
1995-96	$ 58,469,323	$ 86,585,240	$ 7,536,344	$152,590,907	$3,826,612	$148,764,295
1996-97	58,743,000	86,763,943	7,404,271	152,911,214	3,799,409	149,111,805
1997-98	59,965,573	87,226,803	10,222,561	157,414,937	4,512,558	152,902,379
1998-99	63,633,576	94,172,901	10,577,494	168,383,971	4,655,381	163,728,590
1999-00	70,120,054	105,048,079	10,221,397	185,389,530	4,840,799	180,548,731
2000-01	76,745,341	112,696,091	11,598,968	201,040,400	5,322,920	195,717,480
2001-02	84,852,228	122,629,979	12,675,787	220,157,994	5,674,325	214,483,669
2002-03	93,104,455	133,459,423	11,773,210	238,337,088	5,474,711	232,862,377
2003-04	103,818,122	145,973,945	11,949,627	261,741,694	6,742,042	254,999,652
2004-05	117,332,258	159,013,240	11,804,416	288,149,914	7,332,153	280,817,761

Source: County of San Diego Auditor and Controller.
(1) Exemption figures include veterans, church, welfare, religious, college and cemetery exemptions.
(2) Net Assessed Valuation for Tax Purposes figures include local secured, unsecured, state unitary and redevelopment valuation.

The following table shows the approximate tax levied against the ten largest taxpayers in the County for Fiscal Year 2004-05. These tax payments represent approximately 3.2% of the total secured property tax levied by the County.

TEN LARGEST TAXPAYERS
Fiscal Year 2004-05

Property Owners	Business Area	Approximate Tax
San Diego Gas & Electric Company	Gas & Electric Utility	$35,826,727
Southern California Edison	Electric Utility	16,997,669
Pacific Bell Telephone Company	Telecommunications	9,252,650
San Diego Family Housing LLC	Real Estate	9,032,997
Kilroy Realty	Real Estate	7,144,360
Qualcomm, Inc.	Telecommunications	5,749,183
Manchester Resorts	Real Estate	4,800,231
Fashion Valley Mall	Real Estate	4,694,197
BRE Properties	Real Estate	4,279,152
Sea World Inc.	Marine Oriented Theme Park	3,908,989

Source: County of San Diego Auditor and Controller.

Taxes are levied for each Fiscal Year on taxable real and personal property which is situated in the County as of the preceding January 1. However, upon a change in ownership of property or completion of new construction, State law permits an accelerated recognition and taxation of increases in real property assessed valuation. For assessment and collection purposes, property is classified either as “secured” or “unsecured” and is listed accordingly on separate assessment rolls. The “secured roll” is that assessment roll containing locally assessed property secured by a lien which is sufficient, in the opinion of the assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll."

The County levies a 1% property tax on behalf of all taxing agencies in the County. The taxes collected are allocated on the basis of a formula established by State law enacted in 1979. Under this formula, the County and all other taxing entities receive a base year allocation plus an allocation on the basis of growth in situs assessed value (new construction, change of ownership, inflation) prorated among the jurisdictions which serve the tax rate areas within which the growth occurs. Tax rate areas are specifically defined geographic areas which were developed to permit the levying of taxes for less than county-wide or less than city-wide special and school districts. In addition, the County levies and collects additional voter approved debt service and fixed charge assessments on behalf of any taxing agency and special districts within the County.

Property taxes on the secured roll are due in two installments, on November 1 and February 1. If unpaid, such taxes become delinquent after 5:00 p.m. on December 10 and April 10, respectively, and a ten percent penalty attaches. A ten dollar cost also applies to all delinquent second installments. Property on the secured roll with unpaid delinquent taxes is declared tax-defaulted after 5:00 p.m. on June 30th. Such property may thereafter be redeemed by payment of the delinquent taxes, the ten percent delinquency penalty, the ten dollar cost, a fifteen dollar per parcel redemption fee (from which the State receives five dollars), and redemption penalty of one and one half percent per month starting July 1 and continuing until date of redemption (collectively, the "Redemption Amount"). If taxes remain unpaid after five years on the default roll, the property becomes subject to a tax sale by the County Treasurer - Tax Collector.

Property taxes on the unsecured roll are due as of the January 1 lien date and become delinquent, if unpaid, on August 31. A ten percent penalty attaches to delinquent taxes on property on the unsecured roll and an additional penalty of one and one-half percent per month begins to accrue on November 1. The taxing authority has four ways of collecting unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing a certificate in the office of the County Clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer; (3) filing a certificate of delinquency for recordation in the County Recorder's office in order to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the taxpayer.

In the 2004-05 Fiscal Year, the County collected $6,449,495 in property tax administrative fees from cities, special districts and redevelopment agencies. State law exempts school districts from paying such fees.

Secured Tax Rolls Statistics

The following table sets forth the secured tax roll, the number of tax bills prepared, the total assessed value of property on the secured roll and the total property taxes levied on the secured roll for each of the last ten Fiscal Years, including an estimate for the Fiscal Year ending on June 30, 2005. The table also shows the number of bills and the amount of taxes due on them that were unpaid as of the end of each Fiscal Year shown, and the percentage of the taxes levied for each year that were uncollected as of the Fiscal Year end.

SECURED TAX ROLL STATISTICS
Fiscal Years 1995-96 through 2004-05

Fiscal Year	Total Bills	Total Assessed Value[(1)]	Total Tax Amount[(2)]	Delinquent Tax Bills	Delinquent Tax Amount[(3)]	Delinquent Tax Amount as Percent of Tax Amount
1995-96	805,698	$145,681,809,785	$1,623,328,413	30,053	$46,680,249	2.88%
1996-97	815,818	146,000,629,437	1,640,179,294	28,924	37,476,117	2.28
1997-98	823,332	149,611,690,276	1,685,104,282	28,715	31,933,378	1.90
1998-99	831,497	160,102,387,349	1,791,871,717	33,484	32,513,581	1.60
1999-00	842,959	176,113,891,329	1,962,926,237	36,820	39,059,369	1.70
2000-01	857,777	191,194,756,333	2,126,737,380	33,817	38,805,254	1.82
2001-02	871,191	209,281,264,375	2,335,927,431	31,198	39,156,006	1.68
2002-03	885,452	227,376,419,310	2,552,212,549	29,769	39,156,463	1.53
2003-04	898,222	250,071,362,845	2,831,188,116	30,244	41,183,548	1.45
2004-05[(4)]	912,850	276,651,738,142	3,141,818,961	30,000	45,000,000	1.43

Source: County of San Diego Auditor and Controller.
(1) Total Assessed Value figures include local secured and state unitary valuation.
(2) Amount excludes penalties.
(3) Delinquent Tax Amounts represent the dollar value of tax due for delinquencies in the year shown that had not been collected as of June 30 of that year.
(4) Total Bills, Total Assessed Value and Total Tax Amount figures are actual, remaining columns are estimated.

Liens and Redemption

Properties may be redeemed under a five-year installment plan by paying current taxes plus a minimum annual payment of 20% of the original Redemption Amount. A delinquent taxpayer may enter into the installment plan at any time up to the June 30 occurring five years after the property becomes tax-defaulted. Redemption interest accrues at 1-1/2% per month on the unpaid balance of the Redemption Amount during the period of the installment plan. If taxes are unpaid after June 30 of the fifth year of default (or if an installment plan is in place, taxes are unpaid at the end of the plan), the property becomes subject to sale by the County Treasurer-Tax Collector.

Assessed Valuations

The assessed valuation of property in the County is established by the County Assessor, except for public utility property which is assessed by the State Board of Equalization. Assessed valuations are reported in compliance with the requirements of Proposition 13. Generally, property can only be reappraised to market value upon a change in ownership or completion of new construction. Pursuant to Article XIIIA of the State Constitution, the assessed value of property that has not incurred a change of ownership or new construction shall be adjusted annually to reflect inflation at a rate not to exceed 2% per year based on the California consumer price index. In the event of declining property value caused by substantial damage, destruction, economic or other factors, Article XIIIA of the State Constitution allows the assessed value to be reduced temporarily to reflect the lower market value. For the definition of full cash value and more information on property tax limitations and adjustments, see "Constitutional and Statutory Limitations on Taxes, Revenues and Appropriations – Article XIIIA" herein.

The County Assessor determines and enrolls a value for each parcel of taxable real property in the County every year. The value review may result in the reinstatement of the indexed base value after a temporary reduction or it may result in a reduction in value. Taxpayers in the County also may appeal the determination of the County Assessor with respect to the assessed value of their property. In Fiscal Year 2004-05, the County Assessor received and processed approximately 2,573 appeals.

Financial Statements

The following tables set forth the audited General Fund Balance Sheet for Fiscal Year ended June 30, 2003 and for Fiscal Year ended June 30, 2004 and the audited General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance for Fiscal Years 2000-01 through 2003-04.

COUNTY OF SAN DIEGO
GENERAL FUND BALANCE SHEET
June 30, 2003 and June 30, 2004
(In Thousands)

ASSETS	(Audited) 2003	(Audited) 2004
Equity in Pooled Cash and Investments[1]	$355,746	$310,870
Cash with Fiscal Agent [2]	150,719	10,090
Collections in Transit	6,996	7,334
Imprest Cash	314	299
Investments	2	2
Taxes Receivable, net	15,983	34,488
Accounts and Notes Receivable, net	164,901	218,662
Due from Other Funds [3]	203,886	178,321
Prepaid Items	—	10
Advances to Other Funds	689	948
Inventories of Materials and Supplies	6,748	6,941
TOTAL ASSETS	$905,984	$767,965
LIABILITIES		
Accounts Payable	$ 42,361	$ 57,300
Accrued Payroll	35,347	57,152
Amount Due for Tax and Revenue Anticipation Notes [2]	139,039	
Due to Other Funds[3]	23,476	24,744
Deferred Revenue[1]	67,100	77,769
TOTAL LIABILITIES	$307,323	$216,965
FUND BALANCE		
Reserved for Encumbrances	$ 94,617	$ 84,031
Reserved for Notes Receivable and Advances	7,551	7,555
Reserved for Inactive Landfill Closure	—	16,170
Reserved for Inventory of Materials and Supplies	6,748	6,941
Reserved for Other Purposes	101,361	98,595
Unreserved:		
Designated for Subsequent Years' Expenditures	119,421	122,334
Undesignated	268,963	215,374
TOTAL FUND BALANCE	$598,661	$551,000
TOTAL LIABILITIES AND FUND BALANCE	$905,984	$767,965

Source: County of San Diego Auditor and Controller.

(1) Pursuant to Governmental Accounting Standards Board Statement No. 33 ("GASB 33"), revenues from all nonexchange transactions are to be recognized when susceptible to accrual. In a nonexchange transaction, a governmental entity gives (or receives) value without directly receiving (or giving) equal value in return. In prior years, those funds were included in the Trust and Agency Fund section of the financial statements. Thus, revenues were not earned when received, but when expenditures were incurred.

(2) Consistent with National Council on Governmental Accounting Interpretation No. 9, the liability for tax and revenue anticipation notes outstanding at June 30 is displayed in the General Fund and offset by a corresponding asset recorded as cash with fiscal agent representing the pledged amounts.

(3) Amounts are receivables and payables between General Fund and other County funds based on actual or estimated claims outstanding.

COUNTY OF SAN DIEGO
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
For Fiscal Years 2000-01 through 2003-04
(In Thousands)

	(Audited) 2000-01	(Audited) 2001-02	(Audited) 2002-03	(Audited) 2003-04
Revenues:				
Taxes	$ 340,769	$ 369,199	$ 396,415	$ 457,062
Licenses, Permits and Franchises	24,751	28,250	28,840	31,233
Fines, Forfeitures and Penalties	29,511	33,978	36,246	40,363
Revenue From Use of Money and Property	39,176	22,020	16,691	12,721
Aid From Other Governmental Agencies:				
State	773,424	646,680	709,693	649,829
Federal	423,066	495,775	533,562	588,815
Other	37,304	43,150	49,853	57,442
Charges for Current Services	198,522	211,727	243,125	246,381
Other Revenue	31,905	37,092	25,389	32,058
Total Revenues	$1,898,428	$1,887,871	$2,039,814	$2,115,904
Expenditures:				
Current:				
General[1]	$ 134,357	$ 148,326	$ 192,720	$ 207,600
Public Protection[1]	706,978	788,698	1,123,518	1,172,110
Public Ways And Facilities[1]	2,819	3,185	21,855	23,983
Health and Sanitation[1]	432,210	524,974	569,914	552,035
Public Assistance[1]	692,983	755,737	945,562	948,165
Education[1]	501	473	6,649	5,798
Recreational and Cultural[1]	11,833	14,734	19,884	23,709
Debt service:				
Interest	12,581	5,495	12,735	5,776
Total Expenditures	$1,994,262	$2,241,622	$2,892,837	$2,939,176
Excess (Deficiency) of Revenues over (under) Expenditures	($95,834)	($353,751)	($853,023)	($823,272)
Other financing sources (uses):				
Sale of Capital Assets	$ 14	—	$ 11	$ 7
Long Term Debt Proceeds[1]	—	—	560,450	454,113
Refunding Bonds Issued[1]	—	—	176,890	—
Payment to Refunded Bond Escrow Agent	—	—	(176,890)	—
Transfers In[2]	360,791	465,910	478,806	483,333
Transfers (Out) [3]	(135,296)	(159,825)	(156,879)	(162,035)
Total Other Financing Sources (Uses)	$225,509	$306,085	$882,388	$775,418
Net Change in Fund Balance	$129,675	($ 47,666)	$ 29,365	($ 47,854)

(Table continued from prior page.)

	(Audited) 2000-01	(Audited) 2001-02	(Audited) 2002-03	(Audited) 2003-04
Fund Balance - Beginning of Year	495,367	618,284	570,352	598,661
Residual Equity Transfers (Out)	(7,141)			
Increase (Decrease) In:				
Reserve For Inventory of Materials and Supplies	383	(266)	(1,056)	193
Fund Balance - End of Year	$618,284	$570,352	$598,661	$551,000

Source: Comprehensive Annual Financial Report of the County.

(1) The respective amounts in 2002-03 reflect the issuance of the 2002 Pension Obligation Bonds and the escrow and pledge of funds for the 1994 Pension Obligation Bonds in October 2002. The respective amounts in 2003-04 reflect the issuance of 2004 Pension Obligation Bonds in June 2004. The proceeds of these Pension Obligation Bonds were deposited with the San Diego County Retirement Association and were accounted for in Fiscal Years 2002-03 and 2003-04, respectively, as having been expended by each of the seven functional areas noted based on the payrolls attributable to these functional areas.

(2) Beginning in Fiscal Year 2000-01, an accounting method change occurred creating the Special Revenue funds for the Safety Augmentation Sales Tax (Proposition 172), Health and Social Services' Realignment monies and the tobacco securitization proceeds. Revenues from these three sources are recognized in the Special Revenue funds and treated as operating transfers when moved to the General Fund to reimburse expenses incurred, and these three sources accounted for substantially all of the transfers.

(3) Represents contributions to capital funds for General Fund projects, County contributions to the library fund and other internal fund contributions.

General Fund Budget

The Board of Supervisors is required by State law to adopt a balanced annual budget no later than August 30 of each year. The County General Fund finances the legally authorized activities of the County not provided for in other restricted funds. General Fund revenues are derived from such sources as taxes, licenses, permits and franchises, fines, forfeitures and penalties, use of money and property, aid from other governmental agencies, charges for current services and other revenue. General Fund expenditures and encumbrances are classified by the functions of public safety, health and human services, land use and environment, community services, finance and general government and other.

Since the budget must be in balance, any shortfall in revenues requires a reduction in appropriations. Increases in the aggregate appropriations based on actual or anticipated increases in available financing can be made after the final budget has been adopted upon approval by a four-fifths vote of the Board of Supervisors.

To ensure that the budget remains in balance throughout the Fiscal Year, quarterly reviews are made covering actual and projected receipts and expenditures. In the event of any shortfall in projected revenue, immediate steps are taken to freeze or reduce appropriations. Appropriation reductions would be achieved through a combination of hiring freezes, employee layoffs, and freezes on the purchase of equipment, services and supplies. California counties are not permitted by State law to impose fees to raise general revenue, but only to recover the costs of regulation or provision of services. The Chief Financial Officer is responsible for monitoring and reporting expenditures within budgeted appropriations.

2004-05 Budget and Financial Position of the County

The Fiscal Year 2004-05 Adopted Budget (the "2004-05 Adopted Budget") for the County's General Fund included expenditures of approximately $2.869 billion and revenues and other financing sources of approximately $2.869 billion. In accordance with the normal practice of the County, the 2004-05 Adopted Budget has been adjusted to reflect carry-over appropriations from the prior fiscal year and program needs not included in the 2004-05 Adopted Budget. As of March 31, 2005, the County's Fiscal Year 2004-05 General Fund Adjusted Budget (the "2004-05 Adjusted Budget") included expenditures of

$3.165 billion and revenues and other financing sources of $3.165 billion. As of March 31, 2005, as reported in the Fiscal Year 2004-05 Third Quarter Operational Plan Status Report and Budget Adjustments (the "Third Quarter Report") delivered to the Board of Supervisors from the County's Chief Administrative Officer, which was based on the first nine months of Fiscal Year 2004-05, the County projects that its General Fund expenditures for Fiscal Year 2004-05 will be below the 2004-05 Adjusted Budget by $225.9 million and its General Fund revenues and other financing sources will be below the 2004-05 Adjusted Budget by $69.5 million. The net variance is a projected savings to the County's General Fund of $156.4 million, which will be added to any remaining unreserved and undesignated General Fund Balance as of June 30, 2005.

The lower-than-budgeted projected expenditures of the General Fund are primarily attributable to the following:

- Lower-than-budgeted salary and employee benefits costs as a results of greater staff turnover in departments, cautious hiring and controlling overtime and temporary staffing costs;

- Savings in services and supplies due to, among others, (1) delays in awarding contracts, (2) controlling professional services, office expenses, and rents and leases, (3) operational changes that reduced expenditures, and (4) savings in Bioterrorism-related contracts that will be spent in the subsequent year;

- Savings in other charges in assistance payments to clients in California Work Opportunities and Responsibility to Kids ("CalWORKS"), Foster Care, and Aid to Adoptive Families due to demand for services below budgeted levels with no negative impact in services to clients; Child Welfare Services reductions in demand and actual caseloads; savings due to costs associated with certain security and emergency programs; and savings in the Foster Care budget as part of efforts to minimize the number of wards ordered by the Court to placement in residential treatment facilities and efforts to reduce the number of youth placed in the California Youth Authority; and

- Savings from unspent General Fund contingency reserve and Group management reserve resources.

The lower-than-budgeted projected revenues are based in part on the lower-than-projected expenditures noted above (reimbursements are tied to costs) and are partially offset by higher-than-budgeted general purpose revenues. General purpose revenues are expected to exceed budget by 6.8% ($38.4 million).

The following table sets forth the expenditures and revenues and other financing sources of the County's General Fund for Fiscal Year 2004-05 compared to Fiscal Year 2003-04. For Fiscal Year 2003-04, both the Adopted and final Adjusted budgets are shown. For Fiscal Year 2004-05, the table sets forth the Adopted Budget, the Adjusted Budget as of March 31, 2005, the projected expenditures and revenues and other financing sources as reported in the Third Quarter Report, and the variance between the projected actual amounts and those contained in the 2004-05 Adjusted Budget. For Fiscal Year 2005-06 the table sets forth the Adopted Budget.

COMPARISON OF GENERAL FUND ADOPTED AND ADJUSTED BUDGET FOR FISCAL YEAR 2003-04, ADOPTED AND ADJUSTED BUDGET AND PROJECTED RESULTS FOR FISCAL YEAR 2004-05 AND ADOPTED BUDGET FOR FISCAL YEAR 2005-06
(In Thousands of Dollars)

	2003-04 Adopted Budget	2003-04 Adjusted Budget[1]	2004-05 Adopted Budget	2004-05 Adjusted Budget[2]	Projected Year End Results[3]	Variance From Adjusted Budget[4]	2005-06 Adopted Budget[6]
EXPENDITURES							
Public Safety	$ 878,769	$ 938,348	$ 944,105	$ 999,751	$ 951,722	$ 48,029	$ 972,204
Health and Human Services	1,421,273	1,472,399	1,432,507	1,459,131	1,359,260	99,871	1,481,763
Land Use and Environment	95,700	153,264	127,505	170,387	152,260	18,127	130,557
Community Services	38,663	77,332	37,624	77,457	67,921	9,536	43,124
Finance and General Government and Other	337,059	854,109	309,627	439,717	404,992	34,725	300,638
Contingency Reserve and Designations	13,600	8,000	18,200	18,200	2,600	15,600	15,600
Total Appropriations	$2,785,064	$ 3,503,452	$2,869,568	$3,164,643	$2,938,755	$225,888	$2,943,886
REVENUES							
Current Property Taxes	$356,207	$356,207	$561,626	$359,553	$373,308	$13,755	$400,483
Taxes Other Than Current Property Taxes	59,450	59,450	56,150	258,223	281,511	23,288	272,987
Licenses, Permits and Franchises	31,993	31,993	31,876	31,876	31,583	(293)	32,081
Fines, Forfeitures and Penalties	35,004	42,516	44,186	53,789	49,852	(3,937)	52,236
Use of Money and Property	16,529	16,635	20,067	20,070	19,810	(260)	25,780
Aid from Other Government Agencies	1,391,778	1,458,336	1,238,443	1,300,665	1,203,906	(96,759)	1,285,348
Charges for Current Services	226,646	228,982	243,641	250,399	252,315	1,916	254,050
Miscellaneous Revenues and Other Financing Sources	518,286	991,885	540,384	596,547	621,403	24,856	560,735
Total Revenues	$2,635,894	$3,186,003	$2,736,372	$2,871,122	$2,833,688	$(37,434)	$2,883,699
Estimated Use of Unreserved and Designated Fund Balance	$3,572	$3,572	$3,986	$3,986[5]	$3,986	0	3,690
Estimated Use of Unreserved and Undesignated Fund Balance	145,598	313,877	129,209	289,535[5]	257,462	(32,073)	56,496
Total Resources Utilized	$2,785,064	$3,503,452	$2,869,568	$3,164,643	$3,095,136	$(69,507)	$2,943,886
Net Savings from the 2004-05 Adjusted Budget	—	—	—	—	$ 156,381	$ 156,381	—

Source: County of San Diego Auditor Controller

(1) This amount reflects expenditures and revenues included in the 2003-04 Adopted Budget, as amended and adjusted to include all budgeted appropriations and revenues as of June 30, 2004.

(2) This amount reflects expenditures and revenues included in the 2004-05 Adopted Budget, as amended and adjusted to include all budgeted appropriations and revenues as of March 31, 2005.

(3) These amounts reflect, as of March 31, 2005, projections of the expenditures and revenues of the County's General Fund for Fiscal Year 2004-05.

(4) These amounts reflect the difference between the budgeted expenditures, revenues and other financing sources of the County's General Fund in the 2004-05 Adjusted Budget as of March 31, 2005 and the projected expenditures, revenues and other financing sources of the County's General Fund for Fiscal Year 2004-05. Amounts without parenthesis indicate a variance favorable to the County's General Fund. Amounts with parenthesis indicate a variance unfavorable to the County's General Fund.

(5) These amounts reflect (a) estimated use of the unreserved and undesignated portion of the General Fund Balance of approximately $129.2 million contained in the 2004-05 Adopted Budget, (b) estimated use of $4.0 million from the unreserved and designated portion of the General Fund Balance, (c) estimated use of approximately $84.1 million from reserves for encumbrances for appropriations carried over from Fiscal Year 2003-04, which is reflected in the Fiscal Year 2004-05 Adjusted Budget, and (d) $44.2 million of other mid-year fund balance appropriations.

(6) This amount reflects expenditures and revenues included in the 2005-06 Adopted Budget.

The unreserved and undesignated portion of the General Fund Balance as of June 30, 2004 was $215.4 million. See the table entitled "General Fund Balance Sheet" herein for a description of the fund balance of the General Fund for the Fiscal Years ending June 30, 2003 and June 30, 2004, respectively. Included in the 2004-05 Adopted Budget were appropriations based on the unreserved and undesignated portion of the General Fund Balance of approximately $129.2 million. Accordingly, the available unreserved and undesignated portion of the General Fund Balance was reduced to $86.2 million. The General Fund balance was used as the funding source for various one-time or project specific purposes in the 2004-05 Adopted Budget, including the setting aside of amounts to pay debt service on the remaining 1994 POBs, see "County Financial Information – San Diego County Employees' Retirement Association – Pension Obligation Bonds – Escrow and Pledge of Funds for 1994 POBs" herein, 2003 firestorm relief and recovery costs, see "County Financial Information – Impact of 2003 Fires in the County" herein, awarding community project grants, and establishing management reserves. Subsequently, the Board of Supervisors has approved the appropriation of an additional $44.2 million in unreserved and undesignated General Fund Balance for employee incentive compensation payments in the amount of $7.4 million and other budget adjustments in the amount of $36.8 million to ensure that obligations are met and to correct amounts budgeted. The use of the $44.2 million reduces the available unreserved and undesignated General Fund Balance to $42.0 million. The use of fund balance is considered to be a one-time resource and the County adheres to its policy of not spending one-time resources on any on-going operational needs. As noted above, the County projects that the General Fund expenditures will be $225.9 million less than budgeted in the 2004-05 Adjusted Budget and General Fund revenues, including General Fund Balance, will be $69.5 million less than budgeted in the 2004-05 Adjusted Budget. As a result, the net amount of these projected variances (currently estimated to be approximately $156.4 million) would be added to any remaining unreserved and undesignated General Fund Balance as of June 30, 2005. Therefore, the County projects that if there were to be no further uses of available unreserved and undesignated General Fund Balance and no changes in net projected variances for 2004-05, the unreserved and undesignated portion of the General Fund Balance as of June 30, 2005 would be approximately $198.4 million, which would result in a reduction of approximately $17.0 million from the General Fund Balance as of June 30, 2004.

The County does not prepare any formal update of its General Fund Balance projections after the Third Quarter Report. The next formal update of the County's General Fund Balance will occur in connection with the audit of the general purpose financial statements of the County for Fiscal Year ended June 30, 2005. The County does not expect the General Fund Balance for Fiscal Year 2004-05 to be less then the projections contained in the Third Quarter Report.

Vehicle License Fee

The Vehicle License Fee ("VLF") is an annual fee collected by the State for any vehicle subject to registration in California. Prior to the State's Fiscal Year 2004-05 budget, revenue from or equal to the VLF was appropriated by the State to cities and counties for use in health, mental health and social services programs pursuant to certain State statutory mandates and as general purpose revenue.

Cities and Counties, including the County's, share of VLF general purpose revenues was eliminated by the State's Fiscal Year 2004-05 budget and replaced with money shifted from the County's Educational Revenue Augmentation Fund (the "ERAF"), beginning in Fiscal Year 2004-05 (the "ERAF shift"). The ERAF was originally created by the State in Fiscal Year 1992-93 to deposit certain prescribed amounts of property tax to be shifted from local governmental agencies to local schools. The County is authorized to transfer an allocation for Fiscal Year 2004-05 specified by the State from the ERAF to a specific fund established by the County to receive such allocation (the "VLF Property Tax Compensation Fund"). In addition, the State has provided for an allocation in Fiscal Year 2005-06 to be deposited into the VLF Property Tax Compensation Fund based on a formula that takes into account adjusted actual allocations for Fiscal Year 2004-05 and the increase in gross taxable assessed value of property within the

County. The County continues to receive VLF revenues from the State for health, mental health and social services programs.

The State suspended VLF payments during the first three months of Fiscal Year 2003-04 to cities and counties. Under Section 10754.11 of the California Revenue and Taxation Code (the "VLF Law"), the State Controller is required to make a one-time payment in Fiscal Year 2006-07 on or before August 15, 2006 to cities and counties to replace amounts cities and counties did not receive during the first three months of Fiscal Year 2003-04. The amount to be repaid to the County to replace amounts cities and counties did not receive during the first three months of Fiscal Year 2003-04 is approximately $60 million (the "VLF Receivable" and, together with all other amounts owed to local agencies in the State, the "VLF Receivables").

On March 17, 2005, the County sold, on a non-recourse basis, its enire VLF Receivable to the California Statewide Communities Development Authority ("CSCDA") for an amount equal to approximately $56.9 million, in connection with the issuance by CSCDA of its California Statewide Communities Development Authority Revenue Anticipation Notes (Vehicle License Fee Program), in an aggregate principal amount of $454,580,000 (the "VLF Notes"). Upon the sale by the County of its VLF Receivable, the County assigned all of its rights to receive payment of the VLF Receivable to CSCDA. The County intends to use approximately $32.1 million of its proceeds from the sale of its VLF Receivable to pay the costs incurred in connection with the design and installation of a replacement computer system that will administrate the County's property tax collection system. The County transferred approximately $24.9 million of its proceeds from the sale of its VLF Receivable to the Association (as defined below) to reduce the UAAL (as defined below). See "– San Diego County Employees' Retirement Association" below.

The 2005-06 Budget Act provides that the State will repay in Fiscal Year 2005-06 the VLF Receivables. The repayment will be applied to the payment of principal and interest on the VLF Notes at their maturity. Interest earnings, if any, on the County's share of the repayment will be allocated on a pro-rata basis with other participants to the CSCDA financing for the VLF Notes.

County's 2005-06 Adopted Budget and the Operational Plan

The County annually prepares a two-year operational plan, the most recent of which was adopted by the County's Board of Supervisors on August 2, 2005 (the "Operational Plan"). The first year of the Operational Plan is the Adopted County Budget for the 2005-06 Fiscal Year (the "2005-06 Adopted Budget") and the second year represents a projection of the revenues and expenditures of the County for Fiscal Year 2006-07.

The County's 2005-06 Adopted Budget for the County General Fund for Fiscal Year 2005-06 is approximately $2.944 billion, with budgeted Total Appropriations of approximately $2.944 billion, budgeted Total Revenues of approximately $2.884 billion, and total estimated use of the Unreserved and Designated Fund Balance and the Unreserved and Undesignated Fund Balance of approximately $3.69 million and $56.50 million, respectively. See table entitled "COMPARISON OF GENERAL FUND ADOPTED AND ADJUSTED BUDGET FOR FISCAL YEAR 2003-04, ADOPTED AND ADJUSTED BUDGET AND PROJECTED RESULTS FOR FISCAL YEAR 2004-05 AND ADOPTED BUDGET FOR FISCAL YEAR 2005-06" herein for a summary of the County's 2005-06 Adopted Budget.

Summary of General Fund Financing Sources.

General Fund Financing Sources are expected to total approximately $2.9 billion for Fiscal Year 2005-06, a $74.3 million or a 2.6% decrease from Fiscal Year 2004-05. The low growth rates in General Fund Financing Sources for Fiscal Year 2005-06 are largely due to a reduction in the use of fund balance compared to previous years. Overall, the previous three fiscal years saw growth rates of 6.1% or $152.7 million (2002-03), 4.3% or $116.6 million (2003-04), and 3.0% or $84.5 million in 2004-05. General Fund Financing Sources can be categorized as one of three types: Program Revenues, General Purpose Revenues, or Fund Balance (including reserve/designation decreases).

Program Revenues. Program Revenues are expected to total approximately $2.16 billion in Fiscal Year 2005-06. These revenues make up 73.5% of General Fund Financing Sources in Fiscal Year 2005-06, and are derived from State and federal subventions and grants, charges and fees earned from specific programs, Proposition 172 - Public Safety Sales Tax, State Realignment Funds, and Tobacco Settlement funds, among others. Program Revenues, which as the name implies, are dedicated to and can be used only for the specific programs they are associated with, are expected to increase by 4.0% over the Fiscal Year 2004-05 Adopted Budget. The average annual growth for the last four years was 5.2%. State, federal, and other intergovernmental funds of $1.28 billion in Fiscal Year 2005-06 comprise 59% of Program Revenues, maintaining roughly the same percentage of Program Revenues as in Fiscal Year 2004-05.

General Purpose Revenues. General Purpose Revenues, which are expected to total approximately $721.0 million in Fiscal Year 2005-06, comprise approximately 24.5% of General Fund Financing Sources. The revenues come from property taxes, property tax in lieu of VLF, sales taxes (and property tax in lieu of sales tax), real property transfer tax, and miscellaneous other sources. They may be used for any purpose that is a legal expenditure of County funds. The Board, therefore, has the greatest flexibility in allocating these revenues.

The growth in these revenues is principally affected by the local and State economies. In recent years, San Diego's economy has outperformed both State and national growth. Evidence of San Diego's local economic health is reflected in the County's General Purpose Revenues with a 5.5% annual average growth for Fiscal Years 2000-01 through 2004-05. These increases were the result of solid local employment, rising income levels, and population growth. The growth in local resources was dampened, however, last year when the State of California shifted $27.5 million in County property taxes to schools as part of a two-year agreement for Fiscal Years 2004-05 and 2005-06 to help the State contend with its budget crisis. The County's Fiscal Year 2005-06 General Purpose Revenues budget reflects the $27.5 million second-year reduction in property tax revenues.

For the planning period of the Operational Plan (*i.e.,* Fiscal Years 2005-06 and 2006-07), an overall growth rate of 9.7% is estimated ($63.6 million) compared to the Fiscal Year 2004-05 Adopted Operational Plan (which covered Fiscal Years 2004-05 and 2005-06). These estimated revenues were determined by considering the major structural changes that were introduced and adopted in the State of California's Fiscal Year 2003-04 and 2004-05 budgets, the passage of SB 1096 and AB 2115, and the voters' approval of Proposition 57 in March 2004 and Proposition 1A in November 2004. Fundamental changes have been made with significant impact to the County's discretionary general purpose revenue sources. First, the State eliminated the entire amount of the County's general purpose VLF revenue, which constituted approximately 30% of the County's general purpose revenues from Fiscal Years 2001-02 through 2003-04. Previously, general purpose VLF revenue was a State controlled distribution of taxes imposed on vehicle owners based on the value of the vehicles. The State replaced this revenue with a transfer from the Educational Revenue Augmentation Fund ("ERAF") to each County's VLF Property Tax Compensation Fund. (The State required counties to establish an ERAF in Fiscal Year 1992-93 to capture the prescribed amounts of property tax to be shifted from local governmental agencies to local schools.) Further, the State redirected one-quarter cent of local sales and use tax to the State, and replaced it with a transfer from ERAF to each County's Sales and Use Tax Compensation Fund. Because Fiscal Year 2004-05 was the first full year these changes were implemented, components of these changes continue to be refined and assessed by the State and by local governments.

Transfers from Fund Balance. Transfers from Fund Balance, which are expected to total approximately $60.2 million in Fiscal Year 2005-06, including reserve/designation decreases, represents 2.0% of General Fund Financing Sources in Fiscal Year 2005-06. This resource is used for one-time expenses, not for the support of ongoing operations. This compares with $133.2 million in transfers in the Fiscal Year 2004-05 Adopted Budget, which equaled 4.6% of total General Fund Financing Sources.

In the Operational Plan, General Fund balance is proposed to be used as the funding source for various one-time or project specific purposes such as temporary staffing, the purchase of safety and other equipment, management reserves, offsets for the costs of processing building permits for victims of the 2003 fires in the County, set aside for the multi-year cost of the enterprise-wide document management system, required match for the multi-year Stormwater grant, one-time technology projects, County Administration Center major maintenance projects, and awarding community projects grants.

Summary of Total Appropriations.

Appropriations total approximately $4.19 billion in the Operational Plan for Fiscal Year 2005-06. This is an increase of $98.6 million or 2.41% for Fiscal Year 2005-06 from the Fiscal Year 2004-05 Adopted Budget. Of the Total Appropriations of $4.19 billion, an amount equal to approximately $2.94 billion represents appropriations for the General Fund, which constitutes 70% of the Total Appropriations of the County.

Looking at the Operational Plan by Agency/Group, appropriations increase in all Groups - Public Safety, Land Use and Environment, Community Services, and Finance & General Government, and in the Health and Human Services Agency, with the Finance-Other program categories decreasing appropriations. The Health and Human Services Agency, at $1.82 billion, continues to be the largest share of the budget, 43%, followed by the Public Safety Group at $1.20 billion or 29%

Public Safety Group. A net increase of 3.9% or $45.3 million over the Fiscal Year 2004-05 Adopted Budget. This increase is primarily due to negotiated salary and benefit increases for public safety group departments but also includes resources to: open one dorm at the Probation Department's Juvenile Ranch Facility, which will expand sentencing alternatives for youthful offenders; add one additional probation unit to supervise high-risk adult offenders; provide for increased operational and maintenance costs for detention facilities; maintain essential levels of safety and readiness; support increased costs of pharmaceuticals for jail inmates; add public defenders to reduce the number of defense conflicts on high-level felony cases; add two medical examiner investigators to decrease response times; and continue funding for Homeland Security programs, the Regional Communication System, the Jail Management Information System, the North County Regional Gang Task Force, and various grants.

Health and Human Services Agency. A net increase of 4.0% or $70.2 million over the Fiscal Year 2004-05 Adopted Budget. The net increase in the Fiscal Year 2004-05 Adopted Budget is attributed to negotiated increases in salaries and benefits; caseload increases and the rising cost of doing business within the In-Home Supportive Services program; increased funding of County medical services for hospital and clinic services; and additional funds needed to prepare for implementation of an information network system to track welfare services. Cost reductions were achieved as a result of the mental health managed competition.

Land Use and Environment Group. A net increase of 1.1% or $3.5 million from the Fiscal Year 2004-05 Adopted Budget. The increase is due to: negotiated increases in salaries and benefits based on negotiated labor contracts; capital asset increases due to normal fluctuations in capital funding; the restoration of Proposition 42 – Transportation Funding: Sales and Use Tax Revenues for road resurfacing projects, construction, right-of-way acquisitions, and design; and the second year of the Hazardous Fuels

Reduction Program in response to the 2003 fires in the County, for fire recovery efforts and the development of a comprehensive regional fire safety and prevention program for all at-risk communities.

Community Services Group. A net increase of 2.3% or $5.3 million from the Fiscal Year 2004-05 Adopted Budget. The increase is principally due to negotiated increases in salaries and benefits offset by a net 7.25 staff year reduction; increased internal service fund costs for utilities, fuel, and external overheads; increased costs for newly opened branch libraries; and the costs of voter materials for the upcoming elections. Increases in costs are partially offset by decreases to align expenditures with available revenue in Housing and Community Development.

Finance and General Government Group. A net increase of 4.6% or $12.7 million from the Fiscal Year 2004-05 Adopted Budget. The increase is due to negotiated increases in salaries and benefits based on negotiated labor contracts and, an increase in services and supplies due to the implementation costs of enterprise-wide information technology projects.

Capital. A net decrease of $1.2 million or 14.1% from Fiscal Year 2004-05. The net decrease is the result of the changing nature and costs of capital projects. Appropriations for new and existing capital projects include $2.8 million for Multiple Species Conservation Program land acquisitions and approximately $1.0 million for park playgrounds and improvements including Americans with Disabilities Act upgrades.

Finance-Other. A decrease of $37.1 million or $11.0% from Fiscal Year 2004-05. This group of programs includes miscellaneous funds and programs that are predominantly Countywide in nature, have no staffing associated with them, or exist for proper budgetary accounting purposes. Included in this Group are such programs as the Contingency Reserve, the General Fund's Contribution to the Capital Outlay Fund and the Library Fund, lease-purchase payments on the County's certificates of participation issued by the San Diego County Capital Asset Leasing Corporation, the Employee Benefits Internal Service Fund, the Public Liability Internal Service Fund, the Pension Obligation Bond Fund, the Community Enhancement Program, and the Community Projects Program. The decrease is the result of lower lease purchase payments; the one-time escrow and pledge of funds in connection with the 1994 POBs (as defined below) in the prior year; and normal fluctuations in one-time items. There is a slight increase in the Employee Benefits ISF for Workers' Compensation including an increase in the Workers' Compensation reserves.

Impact of 2005-06 Budget Act on the County's 2005-06 Adopted Budget.

The 2005-06 Budget Act is consistent with the two-year budget agreement reached between the State and local governments in July 2004 and the passage of Proposition 1A on the November 2004 ballot with respect to general purpose revenues. For the second consecutive year the County will transfer $27.5 million of its property taxes to the ERAF to assist the State in meeting its funding obligations to schools. This revenue loss was anticipated by the County and factored into the County's 2005-06 Adopted Budget. See "Constitutional and Statutory Limitations on Taxes, Revenues and Appropriations – Proposition 1A" herein.

In recent budget years, the State has been deferring repayment for State mandated costs to local governments. As a result, the County is owed several million dollars by the State. In the 2005-06 proposed State budget, the Governor proposed repayment over a 15-year period of certain outstanding obligations of the State, including the currently outstanding $3.6 billion in "maintenance factor" and $1.3 billion in potential "settle-up" payments to schools, the unfunded mandates to local governments and schools, loans to the State's General Fund from special funds supporting transportation, and other loans from special funds. Further, in accordance with provisions of Proposition 1A, the 2005-06 Budget Act provides funding for mandated costs incurred by local governments in 2004-05 and 2005-06, except for the Peace Officers' Bill of Rights. The most significant of the mandates for the County are the provision of special education mental health services under AB 3632, Absentee Voting services, Child Abduction and Recovery, and the Peace Officers' Bill of Rights. The County's Fiscal Year 2005-06 Adopted Budget assumes that revenue will be received for the special education mental health services because the County successfully sued the State and received a judgment from the Sacramento Superior Court in July 2004. The judgment affirmed that the County did not have to provide the special education mental health services unless the County was reimbursed for its costs. Subsequently, local schools agreed to reimburse the County in order to continue to receive the service. The County included the other three mandated services in the 2005-06 Adopted Budget, but assumed they would be paid for with general purpose revenues. The County will consequently receive unanticipated State revenue for Absentee Voting and Child Abduction and Recovery services in the approximate amount of $2.55 million.

The 2005-06 Budget Act requires counties to transfer undesignated fees to the local trial court. This transfer was to occur only in Fiscal Year 2003-04 and Fiscal Year 2004-05, but has been extended for four more years, albeit at a declining amount. The County's share was $2.1 million for 2003-04 and 2004-05. The transfer will be approximately $1.35 million in 2005-06; such amount was not included in the County's 2005-06 Adopted Budget. General Fund monies are anticipated to be available to make this transfer to the San Diego Superior Court.

Since Fiscal Year 1995-96 the State Property Tax Administration Grant program has assisted counties in maintaining timely property assessments. The 2005-06 Budget Act suspends for two years the entire $60 million that has historically been budgeted for this program. For the County, the revenue loss is $5.4 million and was not anticipated in the County's 2005-06 Adopted Budget. The County will be reviewing its options, including identifying where costs can be reduced and whether any other funding source is available to replace all or a portion of this revenue loss.

Impact of 2003 Fires in the County

In October 2003, fires in the County burned approximately 400,000 acres and destroyed approximately 5,000 structures. The total cost to the County for the 2003 fires is projected to be $34.0 million (revised downward from an earlier projection of $37.4 million that also included $3.4 million in subsequent rain damage in Fiscal Year 2004-05). Included in the $34.0 million projection is the cost of emergency response, debris removal, damage to facilities in County parks, road repair and the estimated revenue loss over four years to the County from waiving building permit fees for victims of the fires. Of that amount, the federal government, the State and insurance carriers have collectively approved $24.7 million for reimbursement to the County, of which, as of August 1, 2005, $15.6 million has been received. All reimbursements (except those for mental health services) and insurance proceeds are being held in a trust fund (the "Fire Recovery Trust Fund") until such time that it can be determined that there will be no or minimal audit disallowances in the case of federal and State sources, or until construction projects are ready to begin in the case of facility damage covered by insurance. The mental health reimbursement is being handled separately through a multi-county process. As of August 1, 2005, $3.9 million have been approved for release from the Fire Recovery Trust Fund to (i) reimburse three special funds for fire-related expenses, including a fund for road construction in the County, (ii) reconstruct the visitor center at the Goodan Ranch Open Space Preserve, and (iii) offset lost property taxes to various jurisdictions from lowered assessments as a result of the fire. The County did not include any reimbursement from federal, State or insurance sources when determining its fund balance as of June 30, 2004, nor will any such funds be factored into the Fiscal Year 2004-05 fund balance or as a financing source in the County's 2005-06 Adopted Budget.

In 2003-04 the County appropriated $22.6 million in the General Fund from a combination of the Contingency Reserve ($3.0 million) and available unreserved and undesignated fund balance ($19.6 million) for costs of response and recovery efforts in connection with the fires. The County expects that federal and State disaster assistance will reimburse the County for a substantial portion of these costs, but the exact amount will not be known until the application and review process has been completed. In addition to the $22.6 million appropriation noted above, the County committed to waiving building permit fees for re-building or repair of homes destroyed or damaged by the 2003 fires. Consequently the County experienced an estimated fee revenue loss of approximately $1.4 million in Fiscal Year 2004-05, and projects a loss of $1.5 million in Fiscal Year 2005-06 and a loss of $1.3 million in Fiscal Year 2006-07. The County expects to offset this loss with fund balance or other resources of the County.

Information Technology Outsourcing Program

The County outsourced its telecommunications and information technology services under a seven-year agreement, valued at approximately $644 million, in December 1999. The current contract with Computer Sciences Corporation and their partners, collectively referred to as the Pennant Alliance, will expire on December 31, 2006. The County board of Supervisors approved a plan to go to the competitive marketplace for the follow-on contract to provide these services.

The County issued the Request for Proposals on May 19, 2005, which is the final phase in the bidding process. Although the pricing of the new contract will be provided by proposing companies by August 30, 2005 and will be negotiated by the County, the County anticipates that a new vendor contract will be in place by December 31, 2006 and that the pricing of the new contract will be negotiated such that it can be absorbed from within the County's available appropriations for Fiscal Year 2006-07. The costs for Fiscal Year 2005-06 associated with the current contract are included in the County's Fiscal Year 2005-06 Proposed Operational Plan.

Teeter Plan

Beginning Fiscal Year 1993-94, the County adopted the alternative method of secured property tax apportionment available under Chapter 3, Part 8, Division 1, of the Revenue and Taxation Code of the State of California (also known as the "Teeter Plan"). This alternative method provides for funding each taxing entity included in the Teeter Plan with its total secured property taxes during the year the taxes are levied, including any amount uncollected at Fiscal Year end. Under this plan, the County assumes an obligation under a debenture or similar demand obligation to advance funds to cover expected delinquencies, and, by such financing, its general fund receives the full amount of secured property taxes levied each year and, therefore, no longer experiences delinquent taxes. In addition, the County's general fund benefits from future collections of penalties and interest on all delinquent taxes collected on behalf of participants in this alternative method of apportionment.

Upon adopting the Teeter Plan in 1993, the County was required to distribute to participating local agencies, 95% of the then accumulated secured roll property tax delinquencies and to place the remaining 5% in the tax losses reserve fund, as described herein. On November 20, 1995, the County issued its Teeter Obligation Taxable Commercial Paper Notes, Series A (the "Series A Teeter Notes") and its Teeter Obligation Tax-Exempt Commercial Paper Notes, Series B (the "Series B Teeter Notes," and together with the Series A Teeter Notes, the "Teeter Obligation Commercial Paper Notes"). The Series A Teeter Notes were initially delivered in a principal amount not in excess of the then remaining uncollected delinquencies in property taxes and assessments due to the County and the other revenue districts for all Fiscal Years of the County ended on and prior to June 30, 1993 for which the County has provided funds pursuant to the Law, exclusive of Default Penalties thereon. Proceeds received from the initial sale of the Series A Teeter Notes were applied first to refund the principal amount of the Debenture issued to refund the County's obligation to fund the delinquencies in property taxes, assessments and other levies due to the County and the other revenue districts pursuant to the Law for all Fiscal Years of the County ended on and prior to June 30, 1993 (the "Initial Debenture), with remaining amounts to pay costs in connection with the initial issuance of the Series A Teeter Notes. The Series B Teeter Notes were initially delivered in a principal amount to pay the Debentures attributable to the Fiscal Years ended June 30, 1994 and June 30, 1995 and to pay costs in connection with the initial issuance of the Series B Teeter Notes. There are no Series A Teeter Notes outstanding and the County will not issue any additional Series A Teeter Notes.

Beginning in June 1996 and each June thereafter the County has issued its Series B Teeter Notes to finance new delinquent property tax payments. The County issued additional Teeter Obligation Tax-Exempt Commercial Paper Notes, Series B-1 and Teeter Obligation Taxable Commercial Paper Notes, Series B-2 in June 2005. As of June 30, 2005, there were $62,990,000 aggregate principal amount of the Series B-1 Teeter Notes and $12,032,000 aggregate principal amount of the Series B-2 Teeter Notes, respectively, outstanding.

The Teeter Obligation Commercial Paper Notes and the interest thereon are on a parity in right of payment from the General Fund with all other obligations of the County payable from the General Fund, except County obligations to set aside amounts therefor and to repay tax and revenue anticipation notes which it may issue from time to time for working capital purposes in accordance with applicable law, which are senior to the County's Commercial Paper Notes and other General Fund obligations.

The Series B Teeter Notes have a first priority lien on Series B Taxes and certain amounts deposited in the Series B Pledge Fund held by the Fiscal Agent. "Series B Taxes" means (1) the right to collect any uncollected property taxes and assessments attributable to the Fiscal Years ended June 30, 1995 through June 30, 2004, and such other Fiscal Years, if any, as may be specified in a Supplemental Resolution, for which the County actually provided funding pursuant to Section 4705 of the California Revenue and Taxation Code (the "Law"), and Default Penalties thereon, (2) all amounts received by the County upon the sale of property to recover such property taxes or assessments, (3) all amounts received by the County upon redemption of properties for sale or previously sold to recover such property taxes or assessments, in each case to which the County is entitled as a consequence of electing to being governed by the Law, but not amounts evidencing or constituting interest or Redemption Penalties, and (4) the right to collect interest and Redemption Penalties on such property taxes and assessments that are paid during the occurrence and continuance of an Event of Default under the Reimbursement Agreement dated June 22, 1998 by and between Landesbank Hessen-Thüringen Girozentrale (the "Bank") and the County (the "Reimbursement Agreement"), or as otherwise provided in the Reimbursement Agreement, but not including costs and fees paid as redemption and County administrative fees in connection with a parcel tax default in accordance with the Law. Series B Taxes do not include Other Taxes. "Other Taxes" means (1) the right to collect delinquent property taxes and assessments due to the County and other revenue districts and attributable to the Fiscal Years ending after June 30, 1996 (except for such amounts which are defined as "Series B Taxes" or otherwise excluded from the definition of "Other Taxes"), for which the County actually provides funding pursuant to the Law and Default Penalties thereon, (2) all amounts received by the County upon the sale of property to recover such property taxes or assessments, and (3) all amounts received by the County upon the redemption of properties for sale or previously sold to recover such property taxes or assessments, in each case to which the County is entitled as a consequence of electing to being governed by the Law, but not amounts evidencing or constituting interest or Redemption Penalties, and (4) the right to collect interest and Redemption Penalties on such property taxes and assessments that are paid during the occurrence and continuance of an Event of Default under the Reimbursement Agreement or as otherwise provided in the Reimbursement Agreement, but not including costs and fees paid in as redemption and County administrative fees in connection with a parcel tax default in accordance with the Law.

Pursuant to the Law, the County is required to establish a tax losses reserve fund to cover losses that may occur in the amount of tax liens as a result of special sales of tax-defaulted property (*i.e.*, if the sale price of the property is less than the amount owed). The amount required to be on deposit in the tax losses reserve fund is, at the election of the County, one of the following amounts: (1) an amount not less than 1% of the total amount of taxes and assessments levied on the secured roll for a particular year for entities participating in the Teeter Plan, or (2) an amount not less than 25% of the total delinquent secured taxes and assessments calculated as of the end of the Fiscal Year for entities participating in the Teeter Plan. The County's tax losses reserve fund is fully funded, in accordance with the County's election to be governed by the second alternative, with a $7,548,000 balance projected for Fiscal Year 2004-05. Accordingly, any additional penalties and interest that otherwise would be credited to the tax losses reserve fund are credited to the County's General Fund.

Interfund Borrowing

Section 6 of Article XVI of the California Constitution provides for interfund borrowing (a "Treasurer's Loan") to cover short-term operational deficits occurring as a result of imbalances between receipts and expenditures. The California Constitution prohibits interfund borrowing by Participant's prior to the first day of the Fiscal Year or after the last Monday of April of each Fiscal Year, and of amounts in excess of 85% of the school district taxes levied by a county under Section 21 of Article XIII of the California Constitution and of amounts apportioned to such school district under Section 6 Article IX of the California Constitution. Participants may utilize Treasurer's Loans from time to time for various purposes. A Treasurer's Loan must be repaid from the Participant's first revenues received thereafter before any other obligation and thus would have a priority over the Series 2005 Certificates. The only Treasurer's Loan utilized by the County in the past ten years was in Fiscal Year 1996-97 in the amount of $25,000,000.

San Diego County Employees' Retirement Association

General

The San Diego County Employees' Retirement Association (the "Association"), which was established July 1, 1939 under provisions of the County Employees' Retirement Law of 1937 (the "Retirement Law"), is a contributory defined benefit plan covering substantially all compensated employees of the County. As of June 30, 2004, there were 17,717 active members, 10,770 retired members and beneficiaries and 4,280 deferred members. Deferred members are those members whose employment has terminated with a participating employer and who left their respective retirement contributions with the Association. The System operates on a fiscal year basis, with its year ending June 30.

The County is one of the employers that participates in the Association. In addition to the County, participating employers include the San Diego Superior Court (the "Courts"), the Local Agency Formation Commission, the San Dieguito River Valley Joint Powers Authority, and the San Diego County Office of Education. The County and these other participating employers are collectively referred to herein as the "Employers." The County is obligated to make 99% of the annual employer contributions to the Association, and the County's General Fund is obligated to make 92% of the annual employer contributions to the Association, which is based on the estimated relative percentage of payroll of the County and the County General Fund for Fiscal Years 2003-04 and 2004-05. State legislation in 1997 provided that effective July 1, 1997, financial responsibility for the Courts, and its employees, including contributions for pension benefits, was transferred to the State, which was to be solely responsible therefore. County Counsel of the County has provided an opinion to the Board and the County to the effect that notwithstanding the transfer of financial responsibility for pension plan payments for the Courts to the State, the County continues to be responsible for making the pension plan payments, whether or not reimbursed by the State. Accordingly, the amounts shown for which the County is responsible reflect employees of the Courts.

Possible Changes to Local Agency Funding of Retirement Benefits

The County's pension plan is a defined benefit plan, created under the Retirement Law, in which benefits are paid in finite amounts, derived from a formula based on age, service credit and levels of compensation. In a defined benefit plan, the investment risk for the plan assets is born by the employer.

The Governor proposed in the 2005-06 Proposed State Budget a constitutional amendment which sought to prohibit "state and local governments from offering defined benefit plans to new employees." These employees would be enrolled in what are referred to as defined contribution plans for which an employer, such as the County, would be making annual payments during an employee's active service, which could be supplemented by employee contributions. The benefit paid under such a defined contribution plan consists of the contributions paid in by the employee and employer plus earnings thereon, less investment losses, which therefore would be borne by the employee. The Governor has since, in his public statements, suggested that he will not pursue such a constitutional amendment, although, according to his public statements, he remains in support of pension reform.

In addition, two ballot measures are circulating, one of which is proposed by a statewide taxpayers' association and the other by the Faculty Association of the University of California, Los Angeles, which, if presented to voters and approved, would prohibit the State and local agencies from enrolling new employees in a defined benefit plan. Further, there would be an annual limit on defined contribution plan payments by a covered employer, such as the County, to an amount not exceeding 6% of an employee's base salary except for employer contributions for certain public safety employees, which would be limited to 9% of base salary. Additional limits would impose even lower levels of contributions by covered employers without matching contributions from the employee of at least 50% of the employer contribution.

There are numerous measures in the State Legislature proposing pension reform, including proposals to amend the State Constitution, which would impose on the State and local agencies similar prohibitions and limitations with respect to defined benefit plans and defined contribution plans. Some of these proposals would permit active employees enrolled in defined benefit plans of local agencies to transfer the net present value of their interest in a defined benefit plan to a defined contribution plan, with no indication of how the funding therefor would be implemented.

No prediction can be made as to whether any of these proposals will become effective or, if adopted and implemented, whether the impact upon local agencies, such as the County, would be adverse. In addition, in light of the significant current political interest to reform pension practices of the State and of local agencies, other proposals may be suggested which, if adopted, may be adverse to the County's financial condition.

General Funding Practices of the Association

Introduction. An actuarial valuation is required under the Retirement Law at least every three years. The Association's practice has been to conduct an actuarial valuation on an annual basis as of June 30 of each year, which is the end of the Association's fiscal year. The actuarial valuation as of June 30, 2005 is expected to be completed by the end of calendar year 2005. The valuation must be completed by an Enrolled Actuary, covering the mortality, service, and compensation experience of the members and beneficiaries, and must evaluate the valuation assets and actuarially determined liabilities of the Association. The Retirement Law requires the Retirement Board of the Association (the "Retirement Board") to recommend to the Board of Supervisors and the other Employers such changes in rates of interest, in the rate of contribution of members, and in the County's and the other Employers' appropriations as necessary. Once the Retirement Board recommends any such changes, the Retirement Law requires the Employers (including the County) to implement such changes.

UAAL and its Calculation. Currently, the Association uses the "entry age normal cost method" to calculate the Employers' annual rates of contribution. The actuarially required contribution has two components, the "normal cost" and the amortized amount of the unfunded actuarial accrued liability ("UAAL"). Normal cost represents the portion of the actuarial present value of the benefits that the Employers and their respective employees will be expected to fund that are attributable to a current year's employment. The amortization of the UAAL represents the current year's portion of the unfunded accrued costs (*i.e.*, the UAAL) attributable to past years' employment. The UAAL may increase or decrease as a result of changes in actuarial assumptions, benefit improvements and other experience which differs from that anticipated by the actuarial assumptions. There is a lag between the point in time at which the actuary completes the actuarial valuation and the date that the contribution rates calculated in the valuation go into effect. This lag is typically 12 months. For example, the recommended contributions contained in the actuarial report as of June 30, 2003 would apply to contributions to be made by the County and the other Employers for the year beginning July 1, 2004.

The UAAL is an estimate based on a series of assumptions that operate on demographic data of the Association's membership. This process is necessary to determine, as of the date of the calculation, how sufficient the assets in the Association are to fund, as of the date of calculation, the accrued costs attributable to currently active, deferred vested members and retired employees. The funding sufficiency is typically expressed as the ratio of the valuation assets to the accrued actuarial liabilities. If the actuarially calculated funding level of a plan is less than 100%, it implies that the plan has a UAAL. Examples of the actuarial assumptions that are used in this process are the assumed rate of earnings on the assets of the plan into the future, the assumed future pay increases for current employees, assumed rates of disability, the assumed retirement ages of active employees, the assumed marital status at retirement, and the post-employment life expectancies of retirees and beneficiaries. If the plan experience differs from the assumptions used, the UAAL will increase or decrease accordingly.

When measuring assets for determining the UAAL, many pension plans, including the Association, "smooth" gains and losses to reduce volatility. If in any year the actual investment return on the Association's assets is lower or higher than the actuarial assumed rate of return (which is 8.25%), then the shortfall or excess is smoothed or spread over a five-year period. The impact of this will result in "smoothed" assets which are lower or higher than the market value of assets depending upon whether the remaining amount to be smoothed is either a net gain or a net loss. In the case of the Association, as a consequence of this smoothing practice, as of June 30, 2004, there were approximately $450.8 million of gains and approximately $467.0 million of losses yet to be smoothed in, leaving a total net unsmoothed loss of $16.2 million remaining to be spread over the four years ending June 30, 2008.

Further, various plans use differing amortization periods for paying off (or "amortizing") a UAAL. Some plans use different rolling periods and still others use "fixed" periods such as a 30-year fixed period, meaning that the actuarially required contribution in a particular year would be the unfunded accrued actuarial liability amortized over the remaining years in the fixed period. On June 17, 2004, the Retirement Board changed the Association's amortization period to a 20-year fixed layered amortization period. The amortization period will be decreasing for the first 20-year layer. The initial 20-year amortization layer as of June 30, 2004 consists of the outstanding balance of UAAL from the June 30, 2003 valuation as reduced by the issuance on June 29, 2004 of the $454,112,915.70 County of San Diego Taxable Pension Obligation Bonds ("2004 POBs"), plus all actuarial gains and losses during the 2003-2004 plan year. The outstanding balance from this layer will be amortized over 19 years in the June 30, 2005 valuation. Each subsequent year's increase or decrease in UAAL, as compared to the immediately prior year's UAAL, will be amortized over separate 20-year fixed amortization periods. The Retirement Board, as with other assumptions, may change the amortization period from time to time, which would result in the Employer's obligations to pay the Association in a particular year being higher or lower. The amortization of the UAAL principal does not occur until the fixed period reduces to approximately 17 years because the 20 year amortization schedule contains annually increasing payments at a rate of 4%

per year. See “County Financial Information – San Diego County Employees’ Retirement Association - Prospective Funding Status of the Association” herein.

Investors are cautioned that in considering the amount of the UAAL as reported by the Association and the resulting amounts of required contributions by the County and the other Employers, this is “forward looking” information in that it reflects the judgment of the Retirement Board and the Association’s actuary as to the amount of assets which the Association will be required to accumulate to fund future benefits over the lives of the currently active employees, vested terminated employees and existing retired employees. These judgments are based upon a variety of assumptions, one or more which may prove to be inaccurate or be changed in the future, and will change with the future experience of the Association.

Assumptions. As required by the Retirement Law, the Retirement Board and the Association’s actuary periodically review the various assumptions that are employed in calculating the UAAL against actual experience. The Association’s actuary delivered an experience study to the Retirement Board in February 2004, pursuant to which in March 2004 the Retirement Board elected to modify certain of the assumptions used to calculate the UAAL. The changed assumptions include the assumed future pay increases for current employees, the assumed rates of disability, the assumed retirement ages of active employees, the assumed marital status at retirement, and the post-employment life expectancies of retirees and beneficiaries. The changed assumptions were included in the actuarial valuation report as of the year ended June 30, 2003.

Actuary. The Segal Company was retained as the Association’s actuary to complete the valuation report as of the year ending June 30, 2003. In the May 6, 2004 meeting of the Retirement Board, The Segal Company recommended and the Retirement Board approved a change of the Association’s smoothing methodology such that the expected investment return on the market value of assets (instead of the current methodology of using the valuation value of assets) will be compared to the actual investment return on the market value of assets, and the difference will be “smoothed” over a five-year period. This change may accelerate the rate at which investment losses and gains are realized. This change will be applied prospectively and will only take effect with return deviations beginning with the fiscal year ended June 30, 2005. In addition to the foregoing and the potential changes described below under “– Potential Assumption Changes,” the Retirement Board has asked the Actuary to make recommendations regarding the development of appropriate policies in connection with the disposition of Excess Earnings (as defined herein). In addition, the Actuary may also review what measure of earnings is used for this purpose. See “County Financial Information – San Diego County Employees’ Retirement Association – Transfers of Investment Earnings by the Association” herein.

Assumption Changes. At the meeting of the Retirement Board on May 5, 2005, the Segal Company presented its recommendations that (1) the Association’s assumed rate of earnings on the assets of the Association be reduced from 8.25% to 8.0% and (2) the Association add a new assumption that, when projecting the costs and liabilities of the pension fund, there would be a real across-the-board increase in employee salaries of 0.25% in each fiscal year, over and above the assumed 4% rate of inflation for each such year (the “Salary Assumption Recommendation”).

On June 2, 2005, the Retirement Board approved the Salary Assumption Recommendation. The actuary will use this new assumption beginning with the actuarial valuation as of June 30, 2005, which will first impact the County’s contributions to the Association in the year ending June 30, 2007. The Retirement Board voted to retain the current actuarial assumed rate of earnings of 8.25%, rather than reduce the assumed rate to 8.0% as recommended by the actuary, and the actuary concurred that the 8.25% assumed rate is reasonable and acceptable in light of the investment strategy of the Retirement Board. The County does not believe that the approved change will affect the ability of the County to meet its existing financial obligations, including the Series 2005 Certificates. The information contained under the captions "*Prospective Funding Status of the Association*" and "County Pension Related Payments and Obligations" below reflects the adoption by the Retirement Board of the Salary Assumption Recommendation.

Investment Policy; Historical Investment Return. The Retirement Law grants the Retirement Board exclusive control over the investment of the Association's assets. The Retirement Law provides general guidelines which generally require the Retirement Board to manage the investments for the purpose of providing benefits to members, minimizing Employer contributions, and defraying the reasonable expenses of administering the Association. The Retirement Law further requires the Retirement Board to manage the Association's investments prudently and to diversify investments.

The Retirement Board has adopted an investment policy statement and related policies to ensure that the Association is managed prudently and in compliance with the Retirement Law. These policies set investment return and risk objectives and provide for extensive diversification of assets, securities, lending, commission recapture, value-added strategies, proxy voting, and corporate governance issues. Based on the investment policies of the Retirement Board, the Retirement Board has adopted, upon the recommendation of the Association's actuary, an actuarial assumed rate of return of 8.25%.

The historical net investment return on the market value of the Association's assets was 21.3% for the year ended June 30, 2004, 6.32% for the three years then ended, 4.99% for the five years then ended and 10.05% for the ten years then ended. This compares to the 8.25% actuarial assumed rate of return that the Association's actuary uses to calculate the normal Employer and employee contribution rates and the UAAL on a year-to-year basis (which is done by projecting into the future a variety of estimates, including how much will be earned on the assets of the Association in future years). In December 2004, the Retirement Board adopted the June 30, 2004 valuation. It reaffirmed and approved the continued use of an assumption of an 8.25% return on plan assets of the Association for purposes of calculating normal Employer and employee annual contributions and UAAL. If a lower investment return rate assumption were used, then the UAAL would be greater, as would the Employers' and employees' annual contributions for normal costs. The Employers are responsible for making contributions relating to UAAL. Conversely, the use of a higher investment return rate assumption would result in a smaller UAAL and smaller Employers' and employees' annual contributions. Actual investment results that are higher or lower than the assumed rate of return will also affect the UAAL and the Employers' annual contributions.

Employee Contributions Paid by the Employers. In addition to making annual contributions to the Association in accordance with the applicable actuarial valuation, the Employers also have agreed pursuant to the collective bargaining arrangements with their employee unions to pay a portion of the employees' required contribution to the Association (these payments by the Employers are referred to herein as the "Employer Offsets"), which, for non-safety employees of the Employers range from 3% to 9.5% of their salary, and for safety employees range from 2.75% to 14.2% of their salary. In most instances, the amount of Employer Offsets will be less than the total required employee annual contribution. Some of these collective bargaining agreements expire in 2006 and some expire in 2007, but since 1982, the Employers' agreement to pay Employer Offsets has been a consistent feature of these collective bargaining arrangements. See "County Financial Information – San Diego County Employees' Retirement Association – Historical Funding Status" herein for information regarding payments by the Employer of Employer Offsets for each of the ten years ending June 30, 2004.

Ventura Litigation. In the case of *Ventura County Deputy Sheriff's Association v. Board of Retirement of Ventura County Employees' Retirement Association* (the "Ventura Litigation"), the California Supreme Court held that certain payments made by a county in excess of basic salary payments to employees are to be included in the definition of final compensation within the meaning of the Retirement Law. In 1998, there were three lawsuits filed against the Association which were consolidated into a coordinated proceeding in the County of San Francisco Superior Court. On February 14, 2002, the County of San Francisco Superior Court approved a settlement of these lawsuits. In consideration for the dismissal of these lawsuits, effective March 8, 2002, the Association and the County agreed to increase benefits for active and retired employees. The County believes that after giving effect to these increased benefits, the calculation that the Association uses in calculating final compensation complies with the standards set forth in the Ventura Litigation. The total estimated accrued liability from these increased benefits is reflected in the actuarial valuation as of October 3, 2002 and in each actuarial valuation prepared since that time.

Pension Obligation Bonds

Introduction. A number of California public agencies, including the County, have issued taxable pension obligation bonds ("POBs") and transferred the proceeds to their respective pension plans so as to reduce the UAAL. Under California law, the obligation to fund the UAAL by making actuarially required contributions is an obligation imposed by law. The effect of issuance of POBs is to refinance that obligation and convert it from an obligation to make actuarially required contributions to an obligation to make interest and principal payments on bonds which are sold to the public. While the UAAL is reduced as a consequence, the public agency's obligation to pay the refinanced amount continues until the bonds are repaid. The duration of the POBs may exceed the amortization period for the UAAL.

County Pension Obligation Bonds. In February 1994, the County issued $430,430,000 in principal amount of POBs (the "1994 POBs") and in October 2002 the County issued an additional $737,340,000 in principal amount of POBs (the "2002 POBs"), in part to refund a portion of the 1994 POBs. On June 29, 2004, the County issued its 2004 POBs in the aggregate principal amount of $454,112,915.70. The County has contributed to the Association an aggregate amount of $1,428,500,000 from the issuance of the 1994 POBs, the 2002 POBs and the 2004 POBs to reduce the UAAL. As of January 1, 2005, the County has POBs outstanding in the aggregate principal amount of $1.191 billion (which amount does not include the 1994 POBs subject to the escrow and pledge of funds described under the caption "County Financial Information – San Diego County Employees' Retirement Association – Pension Obligation Bonds – Escrow and Pledge of Funds for 1994 POBs" herein). The County may, from time to time, finance all or a portion of the UAAL through the additional issuances of POBs.

Swaps. The County has entered into swap agreements in connection with the 2002 POBs with Citibank, N.A. New York ("Citibank") and Morgan Stanley Capital Services Inc. ("Morgan") (collectively, the "Swap Providers") and swaps thereunder. The County entered into interest rate swaps to attain a "synthetic" fixed interest rate on a portion of the underlying POBs, which provided for variable interest rates, at a cost expected by the County to be less than rates associated with fixed-rate obligations at the time the related POBs were issued. See Appendix B – "County of San Diego Audited Financial Statements for the Fiscal Year Ended June 30, 2004" Note 4(F) attached to the Official Statement. Except in the event of an early swap termination, the notional amounts set forth in the table below are amortized in accordance with the scheduled reductions for the related POBs. The following table sets forth information regarding the County's interest rate swaps with respect to a portion of its 2002 POBs as of the date hereof.

INTEREST RATE SWAPS

Initial and Current Notional Amount Covered by Swaps	Effective Date	Fixed Rate Paid by County	Variable Rate Received by County	Current Ratings of Swap Providers	Termination Date
$263 million[(1)]	9/17/02	5.30%	1.18%[(3)]	Aa1/AA/AA+[(1) (4)]	2/15/31
$142 million[(2)]				Aa3/A+/AA-[(2) (4)]	

(1) Citibank, N.A..
(2) Morgan Stanley Capital Services Inc.
(3) Variable rate received by the County is a variable rate based on the One-Month London Interbank Offered Rate ("LIBOR"), which as of April 13, 2005 was 2.950%. The actual rate received is the One-Month LIBOR average rate for the six months preceding the payment dates of February 15 and August 15 over the life of the swap. As of February 15, 2005, the average One-Month LIBOR rate for the preceding six months was 2.04%.
(4) Ratings of Moody's Investors Service, Standard & Poor's Ratings Service and Fitch Ratings, respectively.

Scheduled payments made to the County by the Swap Providers are on a parity with the respective series of POBs to which they relate. The County's rights and obligations under the swaps do not alter the County's obligation to pay the principal of, premium, if any, and interest on the respective POBs. If a Swap Provider defaults on its payment obligations under its respective swap agreement, depending on market conditions, such Swap Provider may seek to recover termination payments from the County, which could be substantial. The County would then potentially have to pay any prospective increases in the variable interest rates payable on that portion of its POBs related to the swap.

Escrow and Pledge of Funds for 1994 POBs. On September 27, 2004, the County deposited with BNY Western Trust Company approximately $63.5 million (the "Deposit"), which was invested in an Investment Agreement (the "Investment Agreement") entered into by the Trustee and an obligor. The obligations of the obligor under the Investment Agreement are guaranteed by American International Group, Inc. ("AIG"), which has been assigned long-term credit ratings from Moody's Investors Service and Standard & Poor's Ratings Services of "Aaa" and "AAA," respectively. Under the Investment Agreement, the obligor will make payments to the BNY Western Trust Company in July of each of 2005, 2006 and 2007 in amounts which will be sufficient to meet the County's remaining annual payment obligations to a counterparty under a Debt Service Forward Sale Agreement (the "Forward Agreement") currently in effect for the 1994 POBs until the final maturity of the 1994 POBs on August 15, 2007. In exchange for the County's annual payments, the Forward Agreement requires the counterparty thereto to deposit securities (which must be non-callable obligations issued or guaranteed by the United States of America or certain instrumentalities or agencies of the United States of America) into the Bond Fund relating to the 1994 POBs the cash flows of which are sufficient to pay each scheduled payment of principal of and interest on the 1994 POBs during the applicable fiscal year. The 1994 POBs will remain outstanding until their regularly scheduled maturities; if the obligor under the Investment Agreement and AIG under its related guaranty, or the counterparty to the Forward Agreement defaults in its respective obligations for any reason, the County remains obligated to make any affected payment of principal of and interest on the 1994 POBs. The 1994 POBs will remain a liability of the County until they are no longer outstanding.

Funding Status of the Association

Current Status. As of June 30, 2004, the date of the most recent actuarial valuation report, the actuarial value of assets of the Association was approximately $5.2 billion, the actuarial accrued liability was approximately $6.4 billion and the funded ratio was approximately 81.1%. The actuarial value of assets may increase or decrease as a result of investment results of the Association increasing or decreasing below the actuarially assumed rate of 8.25% per annum as a consequence of increases or decreases in the securities market. No assurance can be given that the actuarial value of assets of the Association will not materially decrease.

As of June 30, 2004, the UAAL was approximately $1.203 billion. The Association's funded ratio and the UAAL as of June 30, 2004 reflect the contribution by the County of the proceeds of the 1994 POBs, the 2002 POBs and the 2004 POBs, as described above. In the valuation as of June 30, 2004, the combined contribution rate for the County for 2005-06 was calculated at 23.03%. The UAAL as of June 30, 2004 was approximately $232.7 million less than the UAAL as of June 30, 2003. This reduction was primarily attributable to a contribution of $450 million to the Association by the County in connection with the issuance of the 2004 POBs. However, the decrease in the UAAL as a result of that contribution was offset by several actuarial losses, including, an actuarial loss of $130,511,000 due to return on valuation assets of 5.28% compared to the actuarially assumed rate of 8.25%, an actuarial loss of $59,256,000 due to the normal one-year lag in implementation of contribution rates calculated in the valuation as of June 30, 2003 and an actuarial loss of approximately $33,680,000 due to higher than expected salary increases in Fiscal Year 2003-04 that also carried forward into actuarially assumed compensation assumptions used in future fiscal years.

Historical Funding Status. The following table sets forth for each of the ten years ended June 30, 2004 the amount of the total employer contributions made by the County and the other Employers, the UAAL as of the end of each of such fiscal year and the funded ratio of the Association as of the end of each of such fiscal years.

HISTORICAL FUNDING STATUS
Fiscal Years Ended June 30, 1995 through 2004
(In Millions of Dollars)

Fiscal Year	Employer Contribution[1]	Employer Offsets[1]	UAAL[2]	Funded Ratio[2]
1995	$ 33.3	$38.2	($ 24.3)	101.1%
1996	37.6	37.3	(29.9)	101.3
1997	23.3	38.3	(200.2)	108.1
1998	24.3	37.2	(157.0)	105.9
1999	0.0	36.4	(221.8)	107.4
2000	0.0	38.2	(319.8)	109.9
2001	2.0	39.1	(238.8)	106.8
2002	5.3	45.2	905.1[3]	82.5[3]
2003	12.2[4]	53.9	1,435.4[4]	75.5[4]
2004	195.0[3] [4]	55.2	1,202.7[4]	81.1[4]

Source: County of San Diego.

(1) These contribution amounts reflect the aggregate contribution amount of all Employers and not only that of the County. The County General Fund share of Employer contributions and Employer Offsets are estimated to be 92% based on the estimated relative percentage of payroll of the County General Fund for Fiscal Years 2003-04 and 2004-05. See "County Financial Information – San Diego County Employees' Retirement Association – General" herein.

(2) In each year the amounts indicated under the columns Employer Contribution and the Employer Offsets were based on the valuation as reported in the actuarial valuation dated as of the end of the second preceding year ended June 30. Negative numbers represent an actuarially accrued surplus.

(3) The UAAL and Funded Ratio indicated for the fiscal year ending June 30, 2002 are those calculated in an October 2002 actuarial valuation report which calculated the Association's UAAL and Funded Ratio as of October 3, 2002 and which was used to calculate the contribution amounts of the Employers to be used in the fiscal year ending June 30, 2004. The October 2002 actuarial valuation report reflected the contribution by the County of $550 million of proceeds of the 2002 POBs to the Association on October 3, 2002. The use by the Retirement Board of the October 2002 actuarial valuation to establish the Employer required contributions is currently the subject of litigation pending against the Retirement Board and the County; see "County Financial Information – San Diego County Employees' Retirement Association – Litigation Relating to the Association – 2003-04 Contribution Litigation" for a description of this litigation. If the Retirement Board had established the Employer required contributions based on the June 30, 2002 actuarial valuation report, then the Employer required contributions in the year ended June 30, 2004 would have been approximately $308 million, and the Employer Offsets with respect to the same year would have been the same as indicated above.

(4) These contributions do not include any of the amounts contributed by the County from the proceeds of the issuance of the POBs in the indicated Fiscal Years. However, such amounts are reflected in the UAAL and Funded Ratios of the Association as of the end of such Fiscal Years.

Impacts to UAAL. As shown in the foregoing table, from June 30, 2001 to June 30, 2003, the UAAL increased from ($238.8) million to slightly above $1.435 billion, and the funded ratio as of the same dates declined from 106.8% to 75.5%. A number of events occurred during this period which adversely affected the UAAL and the funded ratio, including, but not limited to, (1) effective March 8, 2002, the Board of Supervisors increased retirement benefits for active employees which in turn increased actuarially determined liabilities, (2) effective March 8, 2002, the County, and a number of other counties in California, in connection with the settlement of the Ventura Litigation, agreed to increase benefits, which in turn required transfers from valuation assets; (3) investment results of the Association were below the actuarially assumed rate of 8.25% per annum as a consequence of declines in the securities market; (4) the Association adjusted several demographic assumptions based on a regular experience study conducted by its actuary that evaluates the reasonableness of the Association's assumptions and implemented those in the actuarial valuation report as of June 30, 2003; (5) the Association ceased including amounts in the Undistributed Reserve (as defined herein) as valuation assets when calculating the Association's UAAL; and (6) deviations between actual experience and those assumptions used in calculating the UAAL. In October 2002, the County contributed $550 million from the proceeds of the 2002 POBs, thus refunding an equal amount of UAAL. In addition, the Retirement Board changed the Association's amortization period from a primarily five-year rolling amortization period to a 15-year rolling amortization period. On June 17, 2004, the Retirement Board changed the Association's amortization period to a 20-year fixed layered amortization period. See "County Financial Information –

San Diego County Employees' Retirement Association – General Funding Practices of the Association – UAAL and its Calculation" herein. The amortization of the UAAL principal does not occur until the fixed period reduces to approximately 17 years because the 20 year amortization scheduled contains annually increasing payments at a rate of 4% per year. From June 30, 2003 to June 30, 2004, the UAAL decreased because of the issuance of the 2004 POBs. See "County Financial Information – San Diego County Employees' Retirement Association – Funding Status of the Association" herein and "County Financial Information – San Diego County Employees' Retirement Association – Prospective Funding Status of the Association" herein.

Contribution by the County from Proceeds of VLF Receivable. On March 17, 2005, the County transferred approximately $24.9 million to the Association from the proceeds of the County's VLF Receivable (as defined above) to reduce the UAAL and, as such, this amount was in addition to the amounts that the County will contribute in Fiscal Year 2004-05 to the Association in accordance with the actuarially determined rates of contribution. See "– Vehicle License Fee" above.

Transfers of Investment Earnings by the Association

Introduction. Pursuant to statutory authority under the Retirement Law, the Retirement Board annually directs the crediting of the Association's investment earnings to reserves, some of which are part of valuation assets, and some of which are not. Valuation assets are those assets used in calculating the UAAL and the funded ratio. For the purpose of such crediting, the Retirement Board has defined investment earnings as current income (*i.e.*, the interest, dividends, and rents) plus net realized capital gains on the book value of the Association's valuation and non-valuation assets. All of the Association's investment earnings on the Association's assets are transferred to and kept in a reserve entitled the "Undistributed Reserve," and from there such earnings are transferred in accordance with Retirement Board policy. The Undistributed Reserve is currently not part of valuation assets and, except in certain limited circumstances, the terms of the settlement described under "Litigation Relating to the Association – Excess Earnings Litigation" prohibit amounts in the Undistributed Reserve from being included as assets for purposes of calculating the Association's UAAL.

Pursuant to the statutory authority of the Retirement Law, the Retirement Board has adopted certain "Interest Crediting Goals" which direct that investments earnings be transferred from the Undistributed Reserve to the following Association reserves, effectively, in the following order. First, such earnings are credited to the Association's valuation assets up to an amount determined by the Retirement Board's policies, currently in an amount equal to 8.25% of the value of the Association's valuation assets as of the end of the prior fiscal year. Second, an amount of such earnings is transferred to a contingency reserve (the "Contingency Reserve") that is necessary to maintain the amount on deposit in the Contingency Reserve, which is not part of valuation assets, equal to one percent of the total valuation assets of the Association. The Association may transfer amounts from the Contingency Reserve to valuation assets when current investment earnings are insufficient to credit the valuation asset reserves with the 8.25% interest target. Earnings in excess of the amounts transferred to the Contingency Reserve are referred to herein as "Excess Earnings."

The Retirement Board's Interest Crediting Goals direct that the Retirement Board may allocate any Excess Earnings to any other reserves, whether inside or outside of valuation assets, in accordance with its broad discretion. Decisions of the Retirement Board regarding allocation of Excess Earnings may cause the UAAL to increase or decrease and thus impact the amount of Employer contributions in later years.

The Retirement Law permits the Association to use any Excess Earnings to pay certain supplemental benefits to retirees as well as crediting Excess Earnings to the Association's valuation assets. Pursuant to the authority granted under the Retirement Law, the Retirement Board has historically from time to time transferred Excess Earnings from the Undistributed Reserve to two reserves: (1) a reserve (the "Health Reserve") from which the Association reimburses the Employers for amounts that the Employers contribute for the payment of post-retirement health care benefits; and (2) a reserve established for a supplemental targeted adjustment for a cost of living adjustment ("STAR COLA"). Both the Health Reserve and the STAR COLA reserve are outside of valuation assets, which means that they are not included as assets when calculating the Association's UAAL. For a discussion of the STAR COLA benefits paid by the Association and certain other related issues, see "County Financial Information – STAR COLA Benefits" herein. For a discussion of post-retirement health care benefits paid by the Association and certain other related issues, see "County Financial Information – Post-Retirement Health Care Benefits" herein. The Retirement Board has not adopted a policy of annually crediting any certain amount to the STAR COLA reserve and the Health Reserve as it has for the reserves inside of valuation assets, but the Retirement Board does have a practice of maintaining certain levels in the STAR COLA reserve and the Health Reserve. See "County Financial Information – San Diego County Employees' Retirement Association – General Funding Practices of the Association – New Actuary" for information regarding the review by the new actuary of the Association of the practices and policies of the Association, including the Excess Earnings practices and policies.

At meetings on June 2 and July 21, 2005, the Retirement Board considered an amendment to its policy regarding allocation of Excess Earnings to certain discretionary benefits and reserves. The amendment would add another year of funding for STAR COLA and institute the following future requirements for allocating Excess Earnings: (i) if the funding ratio is less than 85%, then 100% of available Excess Earnings will be allocated to valuation assets to fund a portion of the pension benefits; (ii) if the funding ratio is more than 85% but less than 100%, then up to 50% of Excess Earnings will be allocated to the Health Reserve and STAR COLA reserve to maintain a five year cash reserve, and any remaining Excess Earnings will be credited to valuation assets to fund a portion of the pension benefits; (iii) if the funding level is greater than 100%, then Excess Earnings will be allocated to the Health Reserve and STAR COLA reserve to maintain a five year cash reserve and any remaining Excess Earnings will be credited to the Contingency Reserve above the required 1% funding level with respect to the Contingency Reserve and available for future years. Health Benefits are funded through 2010, at which time the funding ratio is anticipated to exceed 85%. STAR COLA is fully funded through 2009. At its July 21, 2005 meeting, eight of the nine Retirement Board members who were present split their votes equally. The Retirement Board is expected to consider this amendment again on September 1, 2005. No prediction is made regarding whether the proposed amendment will be adopted by the Retirement Board. Allocation of Excess Earnings may impact the UAAL and thus the amount of Employer contributions required to fund pension benefits in the future.

See "County Financial Information – Litigation Relating to the Association – Excess Earnings Litigation" herein regarding the settlement of certain litigation involving the County and the Association that, in part, governs the use by the Retirement Board of Excess Earnings.

Effect of Transfers of Investment Earnings. If transfers of earnings to valuation reserves are not made, higher Employer contribution rates may result for two reasons. First, when earnings are held outside of valuation assets, those amounts are not available to decrease the UAAL, since they are not available to pay benefits reflected in the UAAL. This, in turn, causes the annual contribution amounts of the County to be larger in later fiscal years than would have been the case if all earnings were deposited in the Association's valuation assets.

Second, the manner in which earnings are calculated for allocation purposes may lead to Excess Earnings being generated in years in which the Association's investment rate of return on valuation assets is less than the actuarially assumed rate of return. This is because the Retirement Board has defined "earnings" for allocation purposes as current income (*i.e.*, the interest, dividends, and rents) plus net realized gains on the book value of the Association's assets, meaning that securities having a gain from their book value could be sold to generate net realized gains, whereas, for purposes of calculating the UAAL, the effective rate of return reflects the smoothed earnings on the actuarial value of assets (the earnings on assets after giving effect to the smoothing of gains and losses over a five-year period). As a consequence, this could lead to the transfer of earnings to non-valuation reserves in years in which the investment rate of return for UAAL purposes is less than the assumed rate of return, as occurred in the year ended June 30, 2002.

Under the Retirement Law, the Retirement Board retains the authority to transfer amounts from non-valuation reserves back to the Association's valuation assets, which, if this occurred, could not then be re-transferred back to the STAR COLA reserve, the Health Reserve or any other reserve outside of valuation assets. However, the terms of the settlement described under "Litigation Relating to the Association – Excess Earnings Litigation" herein generally limit the Retirement Board's ability to make such transfers from funds on deposit in these reserves as of June 30, 2002.

Historical Transfers of Investment Earnings. The following table sets forth the amount of the Association's investment earnings that the Retirement Board has transferred from the Undistributed Reserve into reserves that are separate from valuation assets during the ten fiscal years ending June 30, 2004:

TRANSFERS OF INVESTMENT EARNINGS
TO NON-VALUATION RESERVES
Years Ended June 30, 1995 through 2004
(In Millions of Dollars)

Fiscal Year Ended June 30,	Post-Retirement Health Care[1]	STAR COLA[2]	Contingency Reserve[3]	Total
1995	$ 7.9	–	–	$ 7.9
1996	7.4	–	–	7.4
1997	6.5	–	–	6.5
1998	112.3	$ 50.5	–	162.8
1999	7.3	0.0	–	7.3
2000	32.0	9.8	–	41.8
2001	45.5	8.2	–	53.7
2002	117.0	24.2	$35.3	176.5
2003	0.0	0.0	0.0	0.0
2004	0.0	19.6	19.8	39.4
Total	$335.9	$112.3	$55.1	$503.3

Source: The Association.

(1) Reflects amounts that the Association has transferred to the Health Reserve from Excess Earnings.

(2) Reflects amounts that the Association has transferred from Excess Earnings to a reserve established for the payment of STAR COLA. The Association began providing STAR COLA benefits in the year ended June 30, 1999, and transfers to the STAR COLA reserve began in the year ended June 30, 1998.

(3) Reflects amounts that the Association has transferred from the Association's investment earnings to the Contingency Reserve. The Contingency Reserve was created in the fiscal year ended June 30, 2002. Before the creation of the Contingency Reserve, the 1% contingency amounts required by the Retirement Law were maintained in the Undistributed Reserve and were not separated from valuation assets.

In certain of the years indicated in the foregoing table, the amounts credited to the STAR COLA reserve and the Health Reserve were actually transferred after the end of the fiscal year with retroactive effect. The Association does not track either the Employer or the departments or funds of any Employer from which retired personnel receiving STAR COLA or health benefits, when in active service, were paid.

Reserve Levels. As of June 30, 2004, there were no funds on deposit in the Undistributed Reserve, approximately $55.1 million was on deposit in the Contingency Reserve, approximately $56.9

million was on deposit in the STAR COLA reserve (see "County Financial Information – STAR COLA Benefits" herein), and approximately $246.1 million was on deposit in the Health Reserve. The Retirement Board acted at its June 17, 2004 meeting to maintain the STAR COLA and the Health Reserve at levels that equal to at least five years of expected payments of the respective benefits as of June 30, 2004. See "County Financial Information – STAR COLA Benefits" and "County Financial Information – Post-Retirement Healthcare Benefits – Health Reserve" herein.

Prospective Funding Status of the Association

The following table sets forth projections by the Association's actuary relating to future Employer contribution amounts, Employer Offsets, UAAL, and funded ratio. The following sets forth projections by the Association's actuary that gives effect to the contribution by the County of $450 million from the net proceeds of the 2004 POBs.

The information contained in this table, and the related assumptions, are "forward-looking" in nature and are not to be construed as representations of fact or representations that in fact the various tabular information shown will be the correct amounts for the years indicated. Rather, these reflect good faith estimates by the Association's actuary and the County taking into account a variety of assumptions, a number of which are discussed herein. Accordingly, prospective investors are cautioned to review these estimates as general indications of orders of magnitude and not as precise amounts.

PROSPECTIVE FUNDING STATUS OF THE ASSOCIATION
Years Ended June 30, 2005 through 2012
(In Millions of Dollars)

Fiscal Year	Employer Contributions(1)(3) (4)	Employer Offsets(2)(3) (4)	UAAL(1)(3) (4)(5)	Funded Ratio(1) (4)(5)
2005	$238	$54	$1,348	80.5%
2006	220	60	1,379	81.5
2007	242	63	1,274	84.2
2008	254	66	1,128	87.0
2009	257	69	1,100	88.3
2010	257	72	1,080	89.3
2011	266	75	1,058	90.3
2012	277	78	1,032	91.2

(1) The following assumptions have been applied in preparing the foregoing estimates:

(a) The net investment return on the market value of assets will be 8.25% per annum, which has historically been the actuarial assumed rate of return of the Association. This compares to the historical net investment return on the market value of the Association's assets was 21.3% for the year ended June 30, 2004, 6.32% for the three years then ended, 4.99% for the five years then ended and 10.05% for the ten years then ended. See "County Financial Information – San Diego County Employees' Retirement Association – General Funding Practices of the Association – Investment Policy; Historical Investment Return" for a description of the Association's investment policies and historical results.

Under the asset valuation method that has recently been adopted by the Retirement Board, effective July 1, 2005 if the actual return on market value of assets is in excess/below the expected return on market value of assets (8.25% per annum based on the Retirement Board's current assumptions), the difference between the actual and the expected return will be recognized over a five-year period. The table above includes the unrecognized investment loss of $16 million as of June 30, 2004. Accordingly, in developing the above projections, an unrecognized investment loss as of June 30, 2004 is recognized in varying amounts through the year ended June 30, 2008 and would impact Total Employer Payments through June 30, 2010. See "General Funding Practices of the Association – UAAL and its Calculation" for a description of the Association's smoothing practice.

(b) All the actuarial assumptions used in developing the contribution rates in the June 30, 2004 valuation will be met in the future, except the actuarial investment return as noted in (a) above.

(c) The payroll for the Association for the year ending June 30, 2006, will increase to $956 million, an increase of 4.25% over the estimated actual payroll of $917 million for the year ended June 30, 2004. Thereafter, the payroll for each subsequent fiscal year will increase over the prior fiscal year by approximately 4.25%. This compares to an average eligible employee payroll increase in each of the three years ended June 30, 2003 of 9.7%.

(d) For the valuation report as of June 30, 2004 and thereafter the UAAL will be calculated on a 20-year fixed layered amortization period. See "County Financial Information – San Diego County Employees' Retirement Association – General Funding Practices of the Association – UAAL and its Calculation" herein.

(e) Other than as described in (d) above, the Retirement Board's current valuation methodologies, such as the five-year smoothing asset valuation method (described in (a) above) will remain unchanged.

(2) The Employer Offsets for the year ended June 30, 2006 will increase by $4.4 million over the Employer Offsets paid and payable for the year ended June 30, 2004. Thereafter, Employer Offsets for each subsequent year will increase over the prior year by approximately 4.25%. This compares to an average annual increase of Employer Offsets for each of the five years ended June 30, 2004 of $3.8 million or 9%. As indicated above, Employer Offsets are governed by collective bargaining agreements with the Employers' employee groups and reflect in part actual membership demographics, since the actual amount of contributions depend upon length of service with the County.

(3) The County is responsible for approximately 99% of the indicated amounts based on the estimated relative percentage of payroll of the County for Fiscal Years 2003-04 and 2004-05, and the other Employers are responsible for the balance. The County's General Fund is responsible for approximately 92% of the indicated amounts based on the estimated relative percentage of payroll of the County's General Fund for Fiscal Years 2003-04 and 2004-05, and other funds of the County are responsible for the balance of the County's portion. See "County Financial Information – San Diego County Employees' Retirement Association – General" herein.

(4) In each year the Employer-Required Contribution and the Employer Offsets will be based on the UAAL as reported in the actuarial valuation dated as of the end of the second preceding year ended June 30. Indicated projected amounts under the columns entitled "UAAL" and "Funded Ratio" are as of June 30 of the years indicated.

(5) Amounts listed under the columns entitled "UAAL" and "Funded Ratio" do not take into consideration the transfer by the County of approximately $24.9 million to the Association on March 17, 2005 from the proceeds of the County's VLF Receivable. See "– Funding Status of the Association – Contribution by the County from Proceeds of VLF Receivable" above.

The amounts shown in the foregoing table do not give effect to any transfers of Excess Earnings to non-valuation assets (such as to the Health Reserve or to the STAR COLA reserve); however, a transfer of earnings sufficient to maintain the amount on deposit in the Contingency Reserve equal to 1% of the market value of all of the Association's assets is reflected in the indicated amounts. Historically, the Association has transferred an average annual amount from Excess Earnings to the Health Reserve and the STAR COLA reserve, collectively, of approximately $256.3 million for the five years ended June 30, 2004. See "County Financial Information – San Diego County Employees' Retirement Association – Transfers of Excess Earnings by the Association Effect of Transfers of Excess Earnings" for a description of how transfers from excess earnings remove assets from valuation assets which, over time, may increase the UAAL and the required contributions of the County and the other Employers. If such transfers occur in one or more of the years shown, which will most likely occur but the amounts to be transferred or when any transfers will in fact occur is not known, the effect of such transfers will be to increase Employer Contributions and UAAL.

County Pension Related Payments and Obligations

Payments. The following table sets forth the historical and estimated Employer contributions, Employer Offsets and POB debt service for Fiscal Years 2000 through 2012. The estimates contained in this table, and the related assumptions, are "forward-looking" in nature and are not to be construed as representations of fact or representations that in fact the various estimates shown will be the correct amounts for the years indicated. Rather, these reflect good faith estimates by the County taking into account a variety of assumptions, a number of which are discussed herein. Accordingly, prospective investors are cautioned to review these estimates as general indications of orders of magnitude and not as precise amounts.

COUNTY PENSION RELATED PAYMENTS
Fiscal Years Ended June 30, 2000 through 2012
(In Millions)

Fiscal Year	Employer Contributions[3]	Employer Offsets	Pension Obligation Bonds Debt Service[4]	Total Pension Related Payments	Percent Change Year to Year
2000[1]	$ 0.0	$38.2	$48.8	$ 87.0	5.7%
2001[1]	2.0	39.1	51.3	92.4	6.2
2002[1]	5.3	45.2	53.8	104.3	12.9
2003[1]	12.2	53.9	60.8	126.9	21.7
2004[1]	195.0[5]	55.2	54.5	304.7[6]	140.1
2005[2]	238.0	54.0	58.9	350.9[6]	15.2
2006[2]	220.0	60.0	63.5	343.5	(2.1)
2007[2]	242.0	63.0	64.6	369.6	7.6
2008[2]	254.0	66.0	65.8	385.8	4.4
2009[2]	257.0	69.0	81.4	407.4	5.6
2010[2]	257.0	72.0	82.7	411.7	1.1
2011[2]	266.0	75.0	84.0	425.0	3.2
2012[2]	277.0	78.0	85.4	440.4	3.6

(1) Actual.
(2) Estimated. The amounts indicated are subject to the same assumptions as set forth in footnotes (1) through (4) to the "Prospective Funding Status of the Association" table herein.
(3) Contribution amounts reflect the aggregate contribution amount of all Employers and not only that of the County. The County General Fund share of Employer contributions and Employer Offsets are estimated to be 92% based on the estimated relative percentage of payroll of the County General Fund for Fiscal Years 2003-04 and 2004-05. See "County Financial Information – San Diego County Employees' Retirement Association – General" herein.
(4) A portion of the 2002 POBs in the principal amount of $100,000,000 (the "Variable 2002 POBs") and a portion of the 2004 POBs in the principal amount of $147,825,000 (the "Variable 2004 POBs") bear interest at variable rates. In projecting debt service for fiscal years 2005 to 2010, the County has made the following assumptions with respect to the variable interest rate for the Variable 2002 POBs and the Variable 2004 POBs. $405,125,000 principal amount of the Variable 2002 POBs has been synthetically fixed pursuant to a swap agreement between the County and the Swap Providers, and the balance of the Variable 2002 POBs are not subject to such agreement. The County has assumed that those Variable 2002 POBs subject to the swap agreement will bear interest at 5.30% during the indicated fiscal years, and that Swap Providers will perform their obligations under the swap agreement in all material respects. The balance of the Variable 2002 POBs are assumed to bear interest at a variable rate of 3.45%, which consists of the historical average rate from March 2003 through March 2004 of 1.19%, plus an additional 2.00% contingency amount and an additional 0.26% to account for ongoing broker-dealer fees. All of the Variable 2004 POBs are assumed to bear interest at variable rates ranging from 2.50% to 4.62% during the indicated fiscal years. The low end of this range, 2.50%, is based on an estimate of what the One-Month LIBOR will average through June 30, 2006 and the high end of this range, 4.62%, is based on the historical ten-year average of the One-Month LIBOR rate. There are no swaps with respect to the 2004 POBs. For a description of the swap agreement with respect to the Variable 2002 POBs, see "County Financial Information – San Diego County Employees' Retirement Association -Pension Obligation Bonds – Swaps" herein. On September 27, 2004, the County established an Escrow and Pledge Fund with respect to the 1994 POBs. See "County Financial Information – San Diego County Employees' Retirement Association – Pension Obligation Bonds – Escrow and Pledge of Funds for 1994 POBs" herein. Accordingly, debt service with respect to the 1994 POBs for Fiscal Years ending after June 30, 2004 is not reflected in this table.
(5) See footnote (3) to the "Historical Funding Status" table herein.
(6) Increased total pension payments in 2004 are primarily a result of the implementation of enhanced benefit levels and investment results that were below the actuarially assumed rate of 8.25%. See "County Financial Information – San Diego County Employees' Retirement Association – Funding Status of the Association – Impacts to UAAL" herein. Increased total pension payments in 2005 are primarily a result of changes in actuarial assumptions for the valuation as of June 30, 2003 based on an experience study and recognition of smoothed losses.

Obligations. The following table sets forth the historical and estimated UAAL and expected outstanding principal amounts of POBs for the years indicated, assuming no additional POBs are issued and the outstanding POBs mature on their respective amortization schedules. The estimates contained in this table, and the related assumptions, are "forward-looking" in nature and are not to be construed as representations of fact or representations that in fact the various estimates shown will be the correct amounts for the years indicated. Rather, these reflect good faith estimates by the County taking into account a variety of assumptions, a number of which are discussed herein. Accordingly, prospective investors are cautioned to review these estimates as general indications of orders of magnitude and not as precise amounts.

COUNTY PENSION RELATED OBLIGATIONS
Fiscal Years Ended June 30, 2000 through 2012
(In Millions of Dollars)

Fiscal Year[1]	UAAL[1]	Outstanding Pension Obligation Bonds [1][4]	Total Outstanding Obligations[1]
2000	($ 319.8)[2]	$ 347.3[2]	$ 27.5
2001	(238.8)[2]	317.3[2]	78.5
2002	905.1[2][3]	282.9[2]	1,188.0
2003	1,435.4[2]	980.8[2]	2,416.2
2004	1,202.7[2]	1,269.8[6]	2,472.5
2005	1,348.0[5]	1,193.6[6]	2,541.6
2006	1,379.0[5]	1,197.2[6]	2,576.2
2007	1,274.0[5]	1,191.3[6]	2,465.3
2008	1,128.0[5]	1,186.7[6]	2,314.7
2009	1,100.0[5]	1,165.9[6]	2,265.9
2010	1,080.0[5]	1,143.0[6]	2,223.0
2011	1,058.0[5]	1,117.7[6]	2,175.7
2012	1,032.0[5]	1,089.9[6]	2,121.9

(1) As of June 30 of each fiscal year.
(2) Actual.
(3) See footnote (3) to the "Historical Funding Status" table herein.
(4) On September 27, 2004, the County established an Escrow and Pledge Fund with respect to the 1994 POBs. See "County Financial Information – San Diego County Employees' Retirement Association – Pension Obligation Bonds – Escrow and Pledge of Funds for 1994 POBs" herein. Accordingly, outstanding principal balances with respect to the 1994 POBs for Fiscal Years ending after June 30, 2004 are not reflected in this table.
(5) Estimated. The amounts indicated are subject to the same assumptions as set forth in footnotes (1) through (3) to the "Prospective Funding Status of the Association" table herein.
(6) Includes a portion of the 2004 POBs issued as capital appreciation bonds (the "CABs"), for which interest accretes semiannually on February 15 and August 15, but is not payable until the final maturity of each respective capital appreciation bond. The initial total issuance amount of the CABs was $64,927,915.70, which will accrete to total maturity value of $100,170,000 over the respective maturity dates commencing August 15, 2009 and ending August 15, 2015.

STAR COLA Benefits

STAR COLA Benefits. The STAR COLA benefits provide retirees with additional cost-of-living adjustments. The Retirement Board's STAR COLA policy originally sought to preserve at least 75% of a retiree's purchasing power calculated against when that retiree retired. As a result of the Ventura Litigation described above, the Association agreed to increase the minimum level of purchasing power from 75% to 80%. The Retirement Law does not require the Association to provide any STAR COLA payments. In addition, in the opinion of County Counsel, the County has not entered into any collective bargaining agreements or other arrangements that require the County or the Association to maintain STAR COLA benefits. Therefore, in the view of County Counsel, the Association's payments of STAR COLA benefits is an unvested benefit which can be cancelled at any time and for any reason by the Association.

STAR COLA Reserve; Historical Payments. As of June 30, 2004, approximately $56.9 million is on deposit in the STAR COLA reserve. Since it authorized the payment of STAR COLA benefits in 1998, the Retirement Board's historical practice has been to maintain an amount in the STAR COLA reserve that the Association's actuary estimates will be necessary to cover the costs of the STAR COLA benefits for current eligible retirees for five years. Each year, the Association's actuary prepares an estimate of the amounts necessary to be contributed to the STAR COLA reserve to meet this targeted level. On June 3, 2004 The Segal Company presented a report to the Retirement Board in which it estimated, as of June 30, 2003, that expected STAR COLA payments for the five years ending June 30, 2008 would be approximately $56.9 million. On June 17, 2004, the Retirement Board authorized a transfer from Excess Earnings to the STAR COLA reserve in the amount of $19.6 million The Retirement Board acted at its June 17, 2004 meeting to maintain the STAR COLA at levels that equal to at least five years of expected payments of the respective benefits as of June 30, 2004.

Since 1998, the Association has paid approximately $11.5 million, $9.2 million, $8.2 million, $8.1 million, $7.2 million and $11.3 million, respectively, to retirees out of the STAR COLA reserve. The Association does not track either the Employer or the departments or funds of any Employer from which retired personnel receiving STAR COLA benefits, when in active service, were paid.

Post-Retirement Healthcare Benefits

General. The Association offers to its retirees a health benefit to offset or reimburse the cost of medical insurance premiums. A variety of health care and dental plans with varying providers and levels of premiums are sponsored by the Association. Once a retiree elects a particular health care or dental plan, the amount of the premium is deducted from the retiree's monthly retirement check. Alternatively, retirees may be reimbursed for health insurance premiums of non-Association sponsored plans. With respect to those retirees who have 10 or more years of service credit before retirement, the Association offers a monthly medical allowance that ranges from $200 to $400 depending on the years of service credit and Medicare eligibility. With respect to those retirees who are Medicare eligible, the maximum monthly medical allowance is reduced to $300, but the Association reimburses such retirees for their Medicare Part B premium which for 2005 is $78.20.

Nature of the Post-Retirement Health Care Payments. The Retirement Law does not require the Association to provide any post-retirement health care payments. In addition, in the opinion of County Counsel, the County has not entered into any collective bargaining agreements or other arrangements that require the County or the Association to maintain post-retirement health care benefits (although some members of the Association have stated that the County did promise retirees such benefits, which the County disputes). Therefore, in the view of County Counsel, the Association's payment of post-retirement health care benefits is an unvested benefit which can be cancelled at any time and for any reason by the Association. Nonetheless, the Association has continuously provided post-retirement health care benefits for many years.

Source of Payment. The Retirement Law authorizes a mechanism for the payment of post-retirement health care benefit costs pursuant to which a portion of the Employers' contributions are applied to the payment of these post-retirement health care benefits and the amounts of those contributions are reimbursed. The Employers currently designate up to 25% of their respective normal cost annual contributions to the payment of the monthly medical allowance and Medicare Part B premium reimbursement. Upon receiving the Employers' contributions, the Association transfers from the Health Reserve an amount equal to that contributed by the Employers to the Association's valuation assets as a credit for the Employers' current-year contributions.

Health Reserve. The Association has transferred varying annual amounts to the Health Reserve from Excess Earnings, as described above under "County Financial Information – San Diego County Employees' Retirement Association –Transfers of Excess Earnings." As of June 30, 2004, approximately $246.1 million was on deposit in the Health Reserve. On June 3, 2004, The Segal Company presented an actuarial valuation of current levels of post retirement health care benefits (as of June 30, 2003) to the Retirement Board. The report indicated that the total liability for post retirement health care benefits, whether vested or not vested, was approximately $548.4 million. On June 17, 2004, the Retirement Board determined that no amounts would be transferred from Excess Earnings to the Health Reserve for the year ended June 30, 2004. However, this was the first time that the Retirement Board has followed this methodology with respect to the Health Reserve, and the Retirement Board may change this methodology at any time and from time to time. The Retirement Board has followed different methodologies with respect to the Health Reserve in prior fiscal years including using a methodology in at least some fiscal years of transferring amounts necessary to maintain on deposit in the Health Reserve an estimate of providing the cost of these non-vested, discretionary post-retirement health care benefits over the lives of active, deferred, and retired members.

Payments. The following table sets forth the amounts for each of the ten years ended June 30, 2004 that the Association has paid to its members from the Health Reserve:

PAYMENTS FROM HEALTH RESERVE
Years Ended June 30, 1995 through 2004

Fiscal Year Ending June 30	Payments from Health Reserve (in millions)
1995	$ 7.9
1996	7.4
1997	6.5
1998	6.6
1999	8.0
2000	9.0
2001	10.8
2002	14.3[1]
2003	20.0[1]
2004	26.4[1]

(1) A portion of the indicated amounts are allocated to the administrative expenses related to the provision of the post-retirement health care benefits.

The Association does not track either the Employer or the departments or funds of any Employer from which retired personnel receiving post-retirement health care benefits, when in active service, were paid.

Accounting Considerations. Currently, governmental agencies that are on a pay-as-you-go basis, such as the County, are not required to accrue for post-employment healthcare benefits in the same manner as they accrue for pension benefits. On January 30, 2004, the Governmental Accounting Standards Board ("GASB") published a proposed statement (the "Proposed Statement") covering accounting and financial reporting by employers of post-employment benefits other than pensions. On June 21, 2004, GASB adopted the Proposed Statement with certain modifications (as modified, the "Statement"). The Statement requires substantially different financial accounting of any post-employment benefits that are provided separately from a pension plan (such benefits are referred to herein as "OPEB"), such as post-employment healthcare. For the County, the affected benefits include the post-employment health care benefits paid by the Association. The Statement seeks to associate the costs of the OPEB with the periods in which the employee services are rendered in exchange for the OPEB. Currently, however, OPEB is accounted for by the County on a pay-as-you-go basis, which does not require the accrual of costs associated with OPEB that are attributable to current and past fiscal years.

The core requirement of the Statement is that at least biennially an actuarial analysis must be prepared with respect to projected benefits ("Plan Liabilities"); against this would be measured the actuarially determined value of the related assets (the "Plan Assets"). To the extent that Plan Liabilities exceeded Plan Assets, then similar to the actuarial and accounting practices for pension plan liabilities, the difference would be amortized over a period which could be up to 30 years. The method of financial reporting for OPEB costs would be similar to financial reporting for pension plan normal costs and UAAL.

The requirements that the Statement impose on the County only affect the County's financial statements and would not impose any requirements regarding the funding of any OPEB plans. The County is required to include the disclosure required by the Statement beginning with the fiscal year ended June 30, 2008.

Litigation Relating to the Association

Excess Earnings Litigation. Two employee organizations and several individual members of the Association sued the County and the Association in three separate but substantially identical lawsuits. In general, the plaintiffs allege that since the Fiscal Year ending June 30, 1996, contrary to requirements of the Retirement Law and the California Constitution, the Association treated earnings of the System, in excess of total interest credited to contributions and reserves during a year, to be regarded as unrestricted assets of the System for purposes of ascertaining both the amount of the assets available to fund previously promised benefits and the amount of additional funds of the County needed to fund the previously promised benefits. Plaintiffs further allege that by failing to treat these excess earnings and surplus assets as available only for deficiencies in interest earnings in other years and losses on investments and other contingencies, the Association breached its duties to Association members when it recommended to the County Board of Supervisors that the County's contributions to the System be reduced or eliminated, by having improperly regarded those assets as being available to fund previously promised benefits. Plaintiffs also allege that the County or Retirement Board failed to discharge statutory obligations to "meet and confer" with the plaintiff employee organizations prior to determining a course of action to be taken with respect to the recommendations contained in the actuarial valuation. For each of the Fiscal Years in issue, the County has either made reduced payments or no payments to the System based upon the actuarial report and the Retirement Board's recommendations, which the County believes were made in accordance with Retirement Law.

The plaintiffs requested that the Association be mandated to limit the use of such excess earnings to the purposes alleged by them, to cause revised actuarial valuations of assets to be done reflecting the plaintiff's allegations, and to require the submission of revised recommendations to the County regarding necessary County appropriations based upon corrected actuarial valuations; and that the County be mandated to implement these revised recommendations and pay to the System all arrears emanating from the revised recommendation, plus accrued interest.

All of the plaintiffs entered into settlement agreements with the County and the Association resolving this litigation. Under these settlements, the County and the Association have agreed (1) to pay certain of the plaintiffs' attorneys' fees, (2) to meet and confer, upon request, with specified employee association representatives as to future decisions based upon actuarial valuations and (3) not to use excess earnings in the undistributed reserve as an actuarial asset for purposes of determining employer contributions in Fiscal Year 2003-04 or in any other subsequent Fiscal Year or with contributions to be made on or after July 1, 2004, until and unless certain reserve levels and certain benefit levels are achieved. The settlement arrangements with the plaintiffs do not impose any requirement on the County to make additional contributions to the System either in arrears or for the future. The settlement is now final in all respects.

2003-04 Contribution Litigation. Two retired employees of the County who are members in the Association have brought an action against the County and the Board of Retirement claiming that the Board of Retirement has not required an adequate contribution to the Association with respect to Fiscal Year 2003-04. The amount of the County's annual contribution varies depending on the results of an annual actuarial valuation of the assets in and obligations of the pension fund. The Association prepared an actuarial valuation as of June 30, 2002, and the Board of Retirement authorized a contribution by the County of approximately $260 million (the "First Valuation"). As a result of a number of factors, the Association undertook a revised actuarial valuation as of October 3, 2002 that reflected a lower amount necessary to contribute to the Association, which equaled approximately $184 million (the "Second Valuation"), which the Board of Retirement has now authorized. The major factors that reduced the amount of the County's contribution between the First Valuation and the Second Valuation were (1) the County's contribution to the Association of amounts received from the County's Taxable Pension Obligation Bonds and (2) the change by the Board of Retirement of the amortization period over which the County funds the unfunded liability of the Association from five and ten years rolling (depending on the type of unfunded liability) to a rolling 15 years (with respect to all unfunded liabilities). The essence of the plaintiffs' complaint is that when the Board of Retirement authorized the First Valuation, the County became legally obligated to contribute approximately $260 million notwithstanding the results of the Second Valuation. In addition, the plaintiffs may also contest the validity of the Second Valuation, which may include a challenge to the number of years over which the County may amortize the Association's unfunded liability.

Although the plaintiffs' complaint is unclear, it appears as though the plaintiffs are seeking a contribution by the County to the Association in the range of $80-100 million. Accordingly, if the plaintiffs were to succeed on the merits of this litigation any resulting obligations to contribute additional amounts to the Association may have an adverse effect on the financial condition of the County; but the County Counsel does not believe that any resulting obligations would affect the County's ability to fulfill its obligations under the Series 2005 Certificates.

On May 18, 2004, the trial court ruled in favor of the Association and the County. Plaintiffs have appealed the trial court ruling, and the parties have submitted their respective appellate briefs.

Risk Management

The County is required to obtain and maintain public liability insurance and workers' compensation insurance under various types of its financing lease obligations. These financing leases generally require public liability insurance to be issued by a responsible carrier or be in the form of self-insurance or self-funding to cover claims for damages including death, personal injury, bodily injury, or property damage arising from operations involving the facilities covered by such leases, affording protection with a combined single limit loss of not less than $5,000,000 per occurrence with respect to bodily injury, death or property damage liability. In addition, these financing leases generally require the County to obtain and maintain workers' compensation insurance issued by a responsible carrier or in the form of self-insurance or self-funding to cover all persons employed by the County in connection with the facilities covered by such leases and to cover full liability for compensation under the act requiring workers' compensation. Any self-insurance or self-funding for these risks is subject to certain conditions, including, but not limited to, providing evidence of self-insurance and annual certification to the trustee with respect to such financing leases by an authorized representative of the County's risk management division or an independent insurance consultant of the sufficiency of coverage. Appropriation of such funds as may be necessary for self-funding, are made by the County.

The County does not carry liability insurance for premises liability, medical malpractice, errors and omissions, false arrest, general liability or workers' compensation. In accordance with Government Accounting Standards Board Statement 10, "Accounting and Financial Reporting for Risk Financing and Relating Insurance Items," the County established two Internal Service Funds, the Public Service Liability Fund and the Worker's Compensation Fund (collectively, the "ISF") to report all of its uninsured risk management activities. The County annually appropriates sufficient funds to pay that year's anticipated claims expenses. In 1996, the County adopted a ten-year phased funding program to build a reserve within the ISF to fund the liability for outstanding claims. In Fiscal Year 2003-04 no deposit was made into the Workers' Compensation Fund reserve or the Public Service Liability Fund. No amounts have been withdrawn from the reserves. Actuarial valuations estimated that as of June 30, 2004, claims of $97.8 million, including $15.2 million in public liability and $82.6 million in workers' compensation, were probable. As of June 30, 2004, the ISF had reserves of $52.8 million. The estimate of claims liabilities were recorded in the ISF. In Fiscal Year 2003-04, the County did not deposit any amounts into the reserves of the ISF, but appropriated sufficient funds to pay anticipated claims for the year. For Fiscal Year 2004-05, the County deposited $2 million into the Workers' Compensation Fund Reserve in addition to appropriating sufficient funds to pay anticipated claims. The County's Fiscal Year 2005-06 Adopted Budget provides for a deposit of $3.4 million into the Workers' Compensation Fund Reserve in addition to appropriating sufficient funds to pay anticipated claims.

Litigation

CMS Litigation. Section 17000 of the California Welfare & Institutions Code requires the County to provide relief and support to all incompetent, poor and indigent persons, and those incapacitated by age, disease, or accident, who are lawful residents in the County, if those person are not supported or relieved by some other means. The County satisfies its Section 17000 obligation to provide medical care through its County Medical Services (the "CMS") program. Persons who are eligible to receive medical care services under the CMS program are those who have net income below a certain level designated by the CMS program (the "Eligibility Level") and are not otherwise eligible for medical care services from the State or Federal Government. The County pays for medically necessary care received by individuals who are eligible and have qualified for the CMS program.

The County has been sued by 5 individuals who have been denied eligibility under the CMS program because their respective net incomes exceeded the Eligibility Level. Plaintiffs are suing to invalidate the current eligibility requirements of the CMS program and to compel the County to implement new eligibility requirements. Class action status has been requested by the plaintiffs in their pleadings but no efforts to certify a class has been made by the plaintiffs.

One of the plaintiffs, Eric Bromberg, brought a motion for a preliminary injunction seeking to restrain the County from denying him necessary medical care without considering his ability to pay. (Mr. Bromberg's net income was above the Eligibility Level). The trial court issued a preliminary injunction, which enjoined the County from refusing subsistence medical care for Mr. Bromberg without considering Mr. Bromberg's ability to pay the costs of his medical care. The County re-evaluated Mr. Bromberg's application in accordance with the trial court's ruling and he currently is eligible for the CMS program through August 31, 2005.

As a result of the litigation, the County is considering new standards for determining eligibility for the CMS program. The new standards may provide for, among other things, more flexible eligibility requirements. The County plans to use the current eligibility requirements until the County has developed the new standards. The County does not expect to complete its analysis until the end of August 2005. Once the County has developed the new standards, the superior court will likely be asked to determine whether the new requirements satisfy the provisions of Section 17000.

Once the new requirements are implemented, there will likely be an increased number of applicants who will be eligible for benefits from the CMS program and an increase in the overall cost to the County in administering the CMS program. In the 2004-05 Adopted Budget and the 2005-06 Adopted Budget, the County has budgeted $66.5 million and $66.3 million, respectively, in total appropriations for the provision of these benefits without regard to any new eligibility requirements. Since the new requirements will not be implemented until the first or second quarter of Fiscal Year 2005-06, any additional costs that will be incurred by the County in providing these benefits will be paid from existing appropriations.

Because (1) the County is still in the process of developing new eligibility standards; (2) there is no assurance that the trial court will ratify the County's new eligibility requirements as satisfying the provisions of Section 17000; and (3) the number of additional persons who may be eligible for benefits under the new standards will not be fully known until after implementation of the new requirements, the County cannot, at this time, reasonably predict the extent of the increased costs that the County may incur in the fiscal years after Fiscal Year 2005-06. However, since the CMS program is not fully funded on an on-going basis by the State or Federal Government, the County's general purpose revenues may be used to pay for any cost increases in providing these benefits. See "County Financial Information – County's 2005-06 Adopted Budget and the Operational Plan" for a description of the County's general purpose revenues.

Cedar Fire Litigation. The County and the California Department of Forestry (the "CDF") are named defendants in a law suit the claims of which arise out of the loss of the plaintiffs' home in the October 2003 Cedar Fire. In their original complaint, the plaintiffs alleged that the County and CFD failed to coordinate an effective response or to promptly dispatch sufficient resources to control the fire. With respect to the plaintiffs' original complaint, the trial court sustained the defendants' demurrer with leave to amend only as to narrow aspects of their suit. The plaintiffs have submitted an amended complaint, which now also alleges that the defendants failed to prevent an overgrowth of vegetation on "public lands that were subject to defendants' [regulatory] control." The County intends to demur once again to plaintiffs' amended complaint. The court will probably rule on the County's renewed demurrer by August 2005. The plaintiffs are seeking to certify their suit as a class action on behalf of all "similarly situated" property owners, but the court will not address whether to certify the suit as a class action unless the plaintiffs' amended complaint survives demurrer. Plaintiffs seek damages in an amount of $100,000,000, plus attorneys' fees, but this amount is predicated on a successful certification of the suit as a class action.

General. In addition to the foregoing and the matters of litigation described above under "– Litigation Relating to the Association," the County is a named defendant in multiple other lawsuits, some of which may be material to the County. These lawsuits are in varying stages of development and as a consequence the County Counsel is unable to predict exactly how the aggregate of such lawsuits will impact the financial condition of the County. However, the County Counsel does not believe that any amounts that the County may be required to pay as a result of these other lawsuits, as such lawsuits mature and are resolved, would affect the County's ability to fulfill its obligations with respect to the Series 2005 Certificates.

Short-Term Borrowing

On July 1, 2005, the County executed and delivered its 2005-06 Tax and Revenue Anticipation Notes (the "2006 TRANs") on behalf of the County and certain school districts within the County in an aggregate principal amount of $317,100,000, of which $250,000,000 represent notes issued by the County. The 2006 TRANs were executed and delivered and are scheduled to mature on July 14, 2006. The 2006 TRANs were issued for the purpose of financing seasonal cash flow requirements for general fund expenditures.

In addition, the County has authorized and issued its Series B Teeter Notes as taxable and tax-exempt obligations, secured by (1) a pledge of all amounts received by the County as payments for delinquent property taxes associated with the Teeter Plan levied in all Fiscal Years ended before June 30, 2002 and (2) all amounts received by the County upon the sale of property to recover such property taxes, assessments and other levies, or upon redemption of properties previously sold to recover such property taxes, assessments or other levies. The Teeter Obligation Commercial Paper Notes may also be payable from the General Fund of the County. The amounts pledged to the Teeter Obligation Commercial Paper Notes will not be available to pay the 2006 TRANs and the amounts pledged to pay the 2006 TRANs will not be available to pay the Teeter Obligation Commercial Paper Notes. See "County Financial Information – Teeter Plan."

During the 1990s, the County has utilized Treasurer's Loans from time to time for various purposes, including the finance of County library programs and other County programs. Should the County find it necessary to use a Treasurer's Loan, then such borrowing, pursuant to the California Constitution, must be repaid from the first County revenues received thereafter before any other obligation, including the Notes, is paid from such revenues.

General Obligation Debt, Pension Obligation Bonds, Lease Obligations and Long-Term Loans

The County has no outstanding general obligation bonds. As of August 1, 2005, the County has POBs outstanding in the aggregate principal amount of $1.3 billion (which amount does not include the 1994 POBs subject to the escrow and pledge of funds described under the caption "County Financial Information – San Diego County Employees' Retirement Association – Pension Obligation Bonds – Escrow and Pledge of Funds for 1994 POBs" herein). Starting with the financing of the El Cajon Administrative Building in 1955, the County has made use of various lease arrangements with joint powers authorities, a nonprofit corporation, a redevelopment agency and private parties to finance capital project needs. Under these arrangements, the financing entity usually constructs or acquires capital assets with the proceeds of lease revenue bonds or certificates of participation and then leases the asset or assets to the County. The annual long-term lease payments and annual debt service payments on the POBs of the County for Fiscal Year 2004-05 aggregated to approximately $57 million. As of July 1, 2005, there was approximately $429 million aggregate principal amount of long-term general fund obligations outstanding. The annual long-term lease payments and annual debt service payments on the POBs of the County for Fiscal Year 2004-05 will aggregate to approximately $109 million. In addition, the County has approximately $3,386,000 of capital leases outstanding. The debt service on all such capital leases for Fiscal Year 2005-06 does not exceed $115 million.

A summary of long-term obligations payable from the General Fund is set forth below:

COUNTY OF SAN DIEGO
SUMMARY OF GENERAL LONG-TERM OBLIGATIONS
PAYABLE FROM THE GENERAL FUND
As of July 1, 2005
(In Thousands of Dollars)

	Interest Rates	Final Maturity Dates	Original Principal Amounts	Principal Amounts Outstanding
Certificates of Participation:				
San Diego County Capital Asset Leasing Corporation (SANCAL):				
1993 Master Refunding, issued May 1993	2.50-5.625%	2012	$ 203,400	$ 72,545
1996 North & East County Courthouse, issued December 1996	4.00-6.00	2019	37,690	30,595
1997 Central Jail Refunding, issued July 1997	4.00-5.42	2025	80,675	67,635
1998 Downtown Courthouse Refunding, issued December 1998	4.00-4.94	2022	73,115	54,875
1999 East Mesa Refunding, issued September 1999	3.60-4.75	2009	15,010	8,295
2000 Information Technology, issued May 2000	4.50-5.125	2010	51,620	28,970
2002 Motorola, issued March 2002	2.00-5.00	2011	26,060	18,085
2005 Edgemoor Project and 1996 Regional Communications System Refunding, issued February 2005	3.00-5.00	2030	112,395	112,395
Total SANCAL			$599,965	$393,395
San Diego Regional Building Authority (SDRBA):				
2001 MTS Tower Refunding, issued September 2001	2.15-5.25%	2019	$ 36,960	$ 32,380
Total SDRBA			$ 36,960	$ 32,380
Total Certificates of Participation			$636,925	$425,775
Third-Party Financing Leases:				
Others, various beginning dates from March 1991 to the present	4.24-8.00	2004-14	8,705	3,386
Total Third-Party Financing Leases			$ 8,705	$ 3,386
Taxable Pension Bonds:				
County of San Diego Pension Obligation Bonds, Series A, issued February 1994 [(1)]	4.70-6.60%	2007	$ 430,430	$ 60,790
County of San Diego Pension Obligation Bonds, issued September 2002				
Series A	3.88-4.95	2015	132,215	132,215
Series B	Variable Rate	2032	505,125	505,125
Series C (PINES)	6.13	2032	100,000	100,000
County of San Diego Pension Obligation Bonds, issued June 2004				
Series A	3.28-5.865	2022	241,360	241,360
Series B	Variable Rate	2024	147,825	147,825
Series C	4.66-5.76	2015	64,928	64,928
Total Pension Bonds			$1,621,883	$1,252,243
Unamortized Issuance Premium			765	555
Unamortized Issuance Discount			(11,244)	(9,565)
Unamortized Deferred Amount on Refunding			(21,108)	(14,072)
Total General Long Term Obligations			$2,235,926	$1,658,319

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(1) On September 27, 2004, the County deposited with the trustee for the 1994 POBs amounts which the County calculates will be sufficient, when taken together with the debt service forward agreement currently in force and effect, to make the County's remaining debt service payments with respect to the 1994 POBs. For a description of this deposit, see "– San Diego County Employees' Retirement Association – Pension Obligation Bonds – Escrow and Pledge of Funds for 1994 POBs."

SAN DIEGO COUNTY INVESTMENT POOL

General

Pursuant to a resolution adopted July 8, 1958, the Board of Supervisors delegated to the Treasurer the authority to invest and reinvest funds of the County. Applicable law limits this delegation of authority to a one-year period and must be renewed annually by action of the Board of Supervisors. In addition to funds of the County (and the various departments in the County, such as Public Works and Public Administration), funds of certain local agencies within the County, including school districts in the County, are required under state law to be deposited into County treasury ("Involuntary Depositors"). In addition, certain agencies, including community college districts, invest certain of their funds in the County treasury on a voluntary basis ("Voluntary Depositors" and together with the Involuntary Depositors, the "Depositors"). Deposits made by the County and the various local agencies are commingled in a pooled investment fund (the "Treasury Pool" or the "Pool"). No particular deposits are segregated for separate investment.

Under State law, Depositors in the Pool are permitted to withdraw funds which they have deposited on 30 days notice. The County does not expect that the Pool will encounter liquidity shortfalls based on its current portfolio and investment guidelines or realize any losses that may be required to be allocated among all Depositors in the Pool.

The County has established an Oversight Committee as required by State law. The members of the Oversight Committee include the Treasurer, the Chief Financial Officer, members of the public, and a representative from a special district and a school district. The role of the Oversight Committee is to review and monitor the Investment Policy that is prepared by the Treasurer.

The Treasury Pool's Portfolio

As of June 30, 2005, the securities in the Treasury Pool had a market value of $4,082,953,509 and a book value of $4,110,911,947, for a net unrealized loss of $27,958,439, of the book value of the Treasury Pool. As of June 30, 2005, the weighted average maturity of the Pool portfolio was approximately 295 days. As of June 30, 2005, 18.58% of the Pool was invested in securities with maturities ranging from 1-30 days, 18.83% of the Pool was invested in securities with maturities ranging from 31-90 days, 5.89% of the Pool was invested in securities with maturities ranging from 91-180 days, 27.0% of the Pool was invested in securities with maturities ranging from 181-365 days, 27.19% of the Pool was invested in securities with maturities ranging from 366 days to 2 years, and 2.51% of the Pool was invested in securities with maturities between 2 and 5 years.

The effective duration for the Treasury Pool was 0.668 years as of June 30, 2005. "Duration" is a measure of the price volatility of the portfolio and reflects an estimate of the projected increase or decrease in the value of the portfolio based upon a decrease or increase in interest rates. A duration of 0.668 means that for every one percent increase in interest rates the market value of the portfolio would decrease by 0.668%

As of June 30, 2005, approximately 2.29% of the total funds in the Pool were deposited by Voluntary Depositors, such as cities and fire districts, 8.63% by community colleges, 41.72% by the County, and 47.36% by K-12 school districts.

Standard & Poor's, a Division of the McGraw-Hills Companies, Inc. maintains ratings on the Pool's ability to meet its financial commitments of "AAAf" (long-term) and "S1" (short-term volatility). The rating reflects only the view of the rating agency and any explanation of the significance of such rating may be obtained from such rating agency as follows: Standard & Poor's, 55 Water Street, New York, New York 10041.

Investments of the Treasury Pool

Authorized Investments.

Investments of the Pool are placed in those securities authorized by various sections of the California Government Code, which include obligations of the United States Treasury, Agencies of the United States Government, local and State bond issues, bankers acceptances, commercial paper of prime quality, certificates of deposit (both collateralized and negotiable), repurchase and reverse repurchase agreements, medium term corporate notes, shares of beneficial interest in diversified management companies (mutual funds), and asset backed (including mortgage related) and pass-through securities. Generally, investments in repurchase agreements cannot exceed a term of one year and the security underlying the agreement shall be valued at 102% or greater of the funds borrowed against the security and the value of the repurchase agreement shall be adjusted no less than quarterly. In addition, reverse repurchase agreement generally may not exceed 20% of the base value of the portfolio and the term of the agreement may not exceed 92 days. Securities lending transactions are considered reverse repurchase agreements for purposes of this limitation. Base Value is defined as the total cash balance excluding any amounts borrowed (*i.e.*, amounts obtained through selling securities by way of reverse repurchase agreements or other similar borrowing methods).

Legislation which would modify the currently authorized investments and place restrictions on the ability of municipalities to invest in various securities is considered from time to time by the California State Legislature. Therefore, there can be no assurances that the current investments in the Treasury Pool will not vary significantly from the investments described herein.

The Investment Policy.

The County's Investment Policy (the "Investment Policy") (which may be modified, amended, or otherwise changed at any time at the sole discretion of the Treasurer) currently states the primary goals of the Treasurer when investing public funds to be as follows: the primary objective is to safeguard the principal of the funds under the Treasurer's control, the secondary objective is to meet the liquidity needs of the Pool Participants, and the third objective is to achieve a return on the funds under the control of the Treasurer within the parameters of prudent risk management. The Investment Policy contains a goal that 50% of the Pool should be invested in securities maturing one year or less. With respect to reverse repurchase agreements, the Investment Policy provides for a maximum maturity of 92 days (unless the reverse repurchase agreement includes a written guarantee of a minimum earning or spread for the entire period of such agreement) and a limitation on the total amount of reverse repurchase agreements to 20% of the total investments in the Pool. The Investment Policy states that the purpose of reverse repurchase agreements is to supplement the yield on securities owned by the Pool or to provide funds for the immediate payment of an obligation and that the maturity of the reverse repurchase agreement and the maturity of the security purchased be the same.

The Investment Policy also authorizes investments in covered call options or put options, which are options on the part of a third party to buy from the Pool a specified security within a finite time at a specified price. Under the Investment Policy, securities subject to covered calls are not to be used for reverse repurchase agreements, cash sufficient to pay for outstanding puts are to be invested in securities maturing on or before the expiration date of the option, the maximum maturity of a covered call option/put option is to be 90 days and not more than 10% of the total investments in the Pool could have options (in contrast to "derivatives") written against them at any one time.

The County from time to time has engaged in securities lending transactions. Generally, these transactions involve the transfer by the governmental entity, through an agent, of securities to certain broker-dealers and financial institutions or other entities in exchange for collateral, and this collateral may be cash or securities. Most commonly, these transactions provide for the return of the collateral to the securities borrower upon receipt of the same securities at a later date. Presently, the County has suspended its securities lending transactions program, but may decide to enter into a securities lending agreement with another custodian in the future. Any such securities lending transactions are considered reverse repurchase agreements under the Investment Policy and, accordingly, the total principal amount of reverse repurchase agreements and securities lending agreements may not exceed 20% of the Pool. Since the inception of the County's securities lending program in 1987, there has not been any loss of principal to the Pool resulting from these securities lending transactions or the investment of the related collateral.

Certain Information Relating to Pool

The following table reflects information with respect to the Pool as of the close of business June 30, 2005. As described above, a wide range of investments is authorized by state law. Therefore, there can be no assurances that the investments in the Pool will not vary significantly from the investments described herein. In addition, the value of the various investments in the Pool will fluctuate on a daily basis as a result of a multitude of factors, including generally prevailing interest rates and other economic conditions. Therefore, there can be no assurance that the values of the various investments in the Pool will not vary significantly from the values described herein. In addition, the values specified in the following tables were based upon estimates of market values provided to the County by a third party. Accordingly, there can be no assurance that if these securities had been sold on June 30, 2005, the Pool necessarily would have received the values specified. The County has no Pool investments in any corporation that has filed for bankruptcy.

TREASURER-TAX COLLECTOR
SAN DIEGO COUNTY PORTFOLIO STATISTICS
(As of JUNE 30, 2005)

	Percent of Portfolio	Book Value	Market Price	Accrued Interest	Market Value	Unrealized Gain/(Loss)	Yield to Maturity
U S Treasury Notes	2.41%	$ 99,587,719	98.55%	$ 377,049	$ 98,554,690	($ 1,033,029)	2.06%
Federal Farm Credit Bank Notes	11.97	495,719,220	98.52	2,738,536	488,680,694	(7,038,526)	2.41
Federal Home Loan Bank Notes	17.43	720,304,767	98.65	5,270,191	711,538,274	(8,766,493)	2.73
Federal National Mortgage Association Notes	12.11	500,604,095	98.75	3,102,975	494,429,248	(6,174,847)	2.55
Federal Home Loan Mortgage Corporation Notes	2.42	100,000,000	98.65	259,931	98,646,308	(1,353,693)	2.89
Corporate Medium Term Notes	7.22	296,807,180	100.30	4,494,974	294,882,857	(1,924,324)	2.92
Asset Backed Notes	1.45	59,699,010	98.55	544,979	59,128,110	(570,900)	2.90
Money Market Funds	0.68	27,600,000	100.00	74,774	27,600,000	0	2.99
Repurchase Agreements	1.22	50,000,000	100.00	4,872	50,000,000	0	3.51
Negotiable Certificates of Deposit	15.27	624,936,660	99.73	7,772,194	623,287,500	(1,649,160)	2.80
Commercial Paper	27.82	1,135,359,297	99.75	0	1,135,911,828	552,531	3.14
Collateralized Certificates of Deposit	0.01	294,000	100.00	246	294,000	0	2.69
Totals for June 2005	100.00%	$4,110,911,947	99.25%	$24,640,721	$4,082,953,509	($27,958,439)	2.82%
Totals for May 2005	100.00%	$4,347,057,145	99.28%	$23,571,723	$4,319,796,705	($27,260,441)	2.77%
Change From Prior Month		($ 236,145,198)	-0.03%		($ 236,843,196)	($ 697,998)	0.05%
Portfolio Effective Duration	0.668 years						

	June '05 Return	Annualized	Fiscal Year to Date Return	Annualized	Calendar Year to Date Return	Annualized
Book Value	0.232%	2.820%	2.311%	2.311%	1.298%	2.617%
Market Value	0.249	3.029	2.668	2.668	1.486	2.998

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES, REVENUES AND APPROPRIATIONS

Article XIIIA

On June 6, 1978, California voters approved Proposition 13, adding Article XIII A to the California Constitution. Article XIII A, among other things, affects the valuation of real property for the purpose of taxation in that it defines the full cash property value to mean "the county assessor's valuation of real property as shown on the 1975-76 tax bill under 'full cash value,' or thereafter, the appraised value of real property newly constructed, or when a change in ownership has occurred after the 1975 assessment." The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or a reduction in the consumer price index or comparable local data at a rate not to exceed 2% per year, or reduced in the event of declining property value caused by damage, destruction or other factors including a general economic downturn. The amendment further limits the amount of any ad valorem tax on real property to 1% of the full cash value except that additional taxes may be levied to pay debt service on indebtedness approved by the voters prior to July 1, 1978, and bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978 by two-thirds of the votes cast by the voters voting on the proposition.

Legislation enacted by the California Legislature to implement Article XIII A provides that all taxable property is shown at full assessed value as described above. In conformity with this procedure, all taxable property value included in this Official Statement (except as noted) is shown at 100% of assessed value and all general tax rates reflect the $1 per $100 of taxable value. Tax rates for voter approved bonded indebtedness are also applied to 100% of assessed value.

Future assessed valuation growth allowed under Article XIII A (new construction, change of ownership, 2% annual value growth) will be allocated on the basis of "situs" among the jurisdictions that serve the tax rate area within which the growth occurs. Local agencies and school districts will share the growth of "base" revenue from the tax rate area. Each year's growth allocation becomes part of each agency's allocation the following year. The County is unable to predict the nature or magnitude of future revenue sources which may be provided by the State to replace lost property tax revenues. Article XIII A effectively prohibits the levying of any other ad valorem property tax above the 1% limit except for taxes to support indebtedness approved by the voters as described above.

Article XIII B

On November 6, 1979, California voters approved Proposition 4, which added Article XIII B to the California Constitution. In May 1990, the voters through their approval of Proposition 111 amended Article XIII B. Article XIII B of the California Constitution limits the annual appropriations of the State and any city, county, school district, authority or other political subdivision of the State to the level of appropriations for the prior fiscal year, as adjusted annually for changes in the cost of living, population and services rendered by the governmental entity. The "base year" for establishing such appropriation limit is the 1978-79 fiscal year. Increases in appropriations by a governmental entity are also permitted (i) if financial responsibility for providing services is transferred to a governmental entity, or (ii) for emergencies so long as the appropriations limits for the three years following the emergency are reduced to prevent any aggregate increase above the Constitutional limit. Decreases are required where responsibility for providing services is transferred from the government entity.

Appropriations subject to Article XIII B include generally any authorization to expend during the fiscal year the proceeds of taxes levied by the State or other entity of local government, exclusive of certain State subventions, refunds of taxes, benefit payments from retirement, unemployment insurance and disability insurance funds. Appropriations subject to limitation pursuant to Article XIII B do not include debt service on indebtedness existing or legally authorized as of January 1, 1979, on bonded indebtedness thereafter approved according to law by a vote of the electors of the issuing entity voting in an election for such purpose, appropriations required to comply with mandates of courts or the Federal government, appropriations for qualified outlay projects, and appropriations by the State of revenues derived from any increase in gasoline taxes and motor vehicle weight fees above January 1, 1990 levels. "Proceeds of taxes" include, but are not limited to, all tax revenues and the proceeds to any entity of government from (i) regulatory licenses, user charges, and user fees to the extent such proceeds exceed the cost of providing the service or regulation, (ii) the investment of tax revenues and (iii) certain State subventions received by local governments. Article XIII B includes a requirement that if an entity's revenues in any year exceed the amount permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two fiscal years.

As amended in May 1990, the appropriations limit for the County in each year is based on the limit for the prior year, adjusted annually for changes in the costs of living and changes in population, and adjusted, where applicable, for transfer of financial responsibility of providing services to or from another unit of government. The change in the cost of living is, at the County's option, either (i) the percentage change in California per capita personal income, or (ii) the percentage change in the local assessment roll for the jurisdiction due to the addition of nonresidential new construction. The measurement of change in population is a blended average of statewide overall population growth, and change in attendance at local school and community college ("K-14") districts.

As amended by Proposition 111, the appropriations limit is tested over consecutive two-year periods. Any excess of the aggregate "proceeds of taxes" received by the County over such two-year period above the combined appropriations limits for those two years is to be returned to taxpayers by reductions in tax rates or fee schedules over the subsequent two years.

Article XIII B permits any government entity to change the appropriations limit by vote of the electorate in conformity with statutory and Constitutional voting requirements, but any such voter-approved change can only be effective for a maximum of four years.

The County Board of Supervisors adopted the annual appropriation limit for the Fiscal Year 2004-05 of $3,080,880,968. The limitation applies only to proceeds of taxes and therefore does not apply to service fees and charges, investment earnings on non-proceeds of taxes, fines, and revenue from the sale of property and taxes received from the State and federal governments that are tied to special programs. Based on the 2004-05 Adopted Budget, the funds subject to limitation total $717,299,258 (total General Operating Budget minus non-proceeds of taxes and debt service and are approximately $2.3 billion below the Article XIII B limit

Proposition 46

On June 3, 1986, California voters approved Proposition 46, which added an additional exemption to the 1% tax limitation imposed by Article XIII A. Under this amendment to Article XIII A, local governments and school districts may increase the property tax rate above 1% for the period necessary to retire new general obligation bonds, if two-thirds of those voting in a local election approve the issuance of such bonds and the money raised through the sale of the bonds is used exclusively to purchase or improve real property.

Proposition 62

Proposition 62 was adopted by the voters at the November 4, 1986, general election which (a) requires that any new or higher taxes for general governmental purposes imposed by local governmental entities such as the County be approved by a two-thirds vote of the governmental entity's legislative body and by a majority vote of the voters of the governmental entity voting in an election on the tax, (b) requires that any special tax (defined as taxes levied for other than general governmental purposes) imposed by a local government entity be approved by a two-thirds vote of the voters of the governmental entity voting in an election on the tax, (c) restricts the use of revenues from a special tax to the purposes or for the service for which the special tax was imposed, (d) prohibits the imposition of ad valorem taxes on real property by local governmental entities except as permitted by Article XIII A of the California Constitution, (e) prohibits the imposition of transaction taxes and sales taxes on the sale of real property by local governmental entities, and (f) requires that any tax imposed by a local governmental entity on or after August 1, 1985, be ratified by a majority vote of the voters voting in an election on the tax within two years of the adoption of the initiative or be terminated by November 15, 1988.

On September 28, 1995, the California Supreme Court, in the case of *Santa Clara County Local Transportation Authority v. Guardino*, upheld the constitutionality of Proposition 62. In this case, the court held that a county-wide sales tax of one-half of one percent was a special tax that, under Section 53722 of the Government Code, required a two-thirds voter approval. Because the tax received an affirmative vote of only 54.1%, this special tax was found to be invalid.

Following the California Supreme Court's decision upholding Proposition 62, several actions were filed challenging taxes imposed by public agencies since the adoption of Proposition 62. On June 4, 2001, the California Supreme Court released its decision in one of these cases, *Howard Jarvis Taxpayers Association v. City of La Habra, et al.* ("La Habra"). In this case, the court held that public agency's continued imposition and collection of a tax is an ongoing violation, upon which the statute of limitations period begins anew with each collection. The court also held that, unless another statute or constitutional rule provided differently, the statute of limitations for challenges to taxes subject to Proposition 62 is three years. Accordingly, a challenge to a tax subject to Proposition 62 may only be made for those taxes received within three years of the date the action is brought.

Since the adoption of Proposition 62, the County enacted increases in the transient occupancy tax in 1990 without a vote. The County has collected an average of approximately $349,531 from the increase in the transient occupancy tax in each year from fiscal year 1999-00 through 2003-04, totaling approximately $1,749,653. The County collected $279,445 in Fiscal Year 2004-05, as of June 30, 2005; this amount will increase after all accruals are added. On August 1, 2005, the County reduced the transient occupancy tax from 9% to 8%. The County considered authorizing a ballot initiative to increase the transient occupancy tax from 8% to 9%. However, the County decided not to propose an initiative to increase the transient occupancy tax to 9% at the present time. On August 11, 2005, the County received an administrative claim on behalf of a "class" of hotel patrons requesting a refund of transient occupancy taxes paid above 8% from August 2, 2002 to August 2, 2005. A lawsuit was filed against the County on August 18, 2005 by the administrative claimant on the same basis. The County believes that the reduction in the transient occupancy tax or any order to refund any previously collected taxes will not adversely affect the ability of the County to repay the Series 2005 Certificates or any of its other obligations as and when due.

Proposition 218

On November 5, 1996, the voters of the State approved Proposition 218, a constitutional initiative, entitled the "Right to Vote on Taxes Act" ("Proposition 218"). Proposition 218 added Articles

XIII C and XIII D to the California Constitution and contained a number of interrelated provisions affecting the ability of local governments, including the County, to levy and collect both existing and future taxes, assessments, fees and charges. The County is unable to predict whether and to what extent Proposition 218 may be held to be constitutional or how its terms will be interpreted and applied by the courts. Proposition 218 could substantially restrict the County's ability to raise future revenues and could subject certain existing sources of revenue to reduction or repeal, and increase the County's costs to hold elections, calculate fees and assessments, notify the public and defend its fees and assessments in court. However, the County does not presently believe that the potential financial impact on the County as a result of the provisions of Proposition 218 will adversely affect the County's ability to make Base Rental Payments and perform its other obligations payable from the General Fund as and when due.

Article XIII C requires that all new local taxes be submitted to the electorate before they become effective. Taxes for general governmental purposes of the County require a majority vote and taxes for specific purposes, even if deposited in the County's General Fund, require a two-thirds vote. Further, any general purpose tax that the County imposed, extended or increased without voter approval after December 31, 1994 may continue to be imposed only if approved by a majority vote in an election held within two years of November 5, 1996. The County has not enacted, imposed, extended or increased any tax without voter approval since January 1, 1995. These voter approval requirements of Proposition 218 reduce the flexibility of the County to raise revenues through General Fund taxes, and no assurance can be given that the County will be able to impose, extend or increase such taxes in the future to meet increased expenditure requirements.

Article XIII C also expressly extends to voters the power to reduce or repeal local taxes, assessments, fees and charges through the initiative process, regardless of the date such taxes, assessments, fees or charges were imposed. This extension of the initiative power is not limited by the terms of Proposition 218 to fees imposed after November 6, 1996 and absent other legal authority could result in retroactive reduction in any existing taxes, assessments or fees and charges.

SB 919 provides that the initiative powers extended to voters under Article XIII C likely excludes actions construed as impairment of contracts under the contract clause of the United States Constitution. SB 919 provides that the initiative power provided for in Proposition 218 "shall not be construed to mean that any owner or beneficial owner of a municipal security, purchased before or after November 6, 1998, assumes the risk of, or in any way consents to, any action by initiative measure that constitutes an impairment of contractual rights" protected by the United States Constitution. However, no assurance can be given that the voters of the County will not, in the future, approve an initiative which reduces or repeals local taxes, assessments, fees or charges that currently are deposited into the County's General Fund. Further, "fees" and "charges" are not defined in Article XIII C or SB 919, and it is unclear whether these terms are intended to have the same meanings for purposes of Article XIII C as they do in Article XIII D. Accordingly, the scope of the initiative power under Article XIII C could include all sources of General Fund moneys not received from or imposed by the federal or State government or derived from investment income.

The initiative power granted under Article XIII C of Proposition 218, by its terms, applies to all local taxes, assessments, fees and charges. The County is unable to predict whether the courts will ultimately interpret the initiative provision to be limited to property related local taxes, assessments, fees and charges. No assurance can be given that the voters of the County will not, in the future, approve an initiative which reduces or repeals local taxes, assessments, fees or charges which are deposited into the County's General Fund. The County believes that in the event that the initiative power was exercised so that all local taxes, assessments, fees and charges which may be subject to the provisions of Proposition 218 are reduced or substantially reduced, the financial condition of the County, including its General Fund, would be materially adversely affected. As a result, there can be no assurances that the County would be able to pay the Series 2005 Certificates as and when due or any of its other obligations payable from the General Fund.

Article XIII D of Proposition 218 adds several new requirements to make it more difficult for local agencies to levy and maintain "assessments" for municipal services and programs. "Assessment" is defined in Proposition 218 and SB 919 as any levy or charge upon real property for a special benefit conferred upon the real property. This includes maintenance assessments imposed in County service areas and in special districts. In most instances, in the event that the County is unable to collect assessment revenues relating to specific programs as a consequence of Proposition 218, the County will curtail such services rather than use amounts in the General Fund to finance such programs. Accordingly, the County anticipates that any impact Proposition 218 may have on existing or future taxes, fees, and assessments will not adversely affect the ability of the County to pay the Series 2005 Certificates as and when due. However, no assurance can be given that the County may or will be able to reduce or eliminate such services in the event the assessments that presently finance them are reduced or repealed.

Article XIII D also adds several provisions, including notice requirements and restrictions on use, affecting "fees" and "charges" which are defined as "any levy other than an ad valorem tax, a special tax, or an assessment, imposed by a local government upon a parcel or upon a person as an incident of property ownership, including a user fee or charge for a property related service." The annual amount of revenues that are received by the County and deposited into its General Fund which may be considered to be property related fees and charges under Article XIII D of Proposition 218 is not substantial. Accordingly, presently the County does not anticipate that any impact Proposition 218 may have on future fees and charges will not adversely affect the ability of the County to pay the principal and interest on the Series 2005 Certificates as and when due. However, no assurance can be given that the County may or will be able to reduce or eliminate such services in the event the fees and charges that presently finance them are reduced or repealed.

The County has a clean water enterprise fund which is self-supporting from fees and charges that may ultimately be determined to be property related for purposes of Article XIII D of Proposition 218. Further, the fees and charges of the County's enterprise funds, including those which are not property related for purposes of Article XIII D of Proposition 218, may be determined to be fees and charges subject to the initiative power as provided in Article XIII C of Proposition 218, as described above. In the event that fees and charges cannot be appropriately increased or are reduced pursuant to the exercise of the initiative power, the County may have to choose whether to reduce or eliminate the service financed by such fees or charges or finance such service from its General Fund. Further, no assurance can be given that the County may or will be able to reduce or eliminate such services in the event the fees and charges that presently finance them are reduced or repealed.

Additional implementing legislation respecting Proposition 218 may be introduced in the State legislature from time to time that would supplement and add provisions to California statutory law. No assurance may be given as to the terms of such legislation or its potential impact on the County.

Proposition 1A

Proposition 1A (SCA 4) ("Proposition 1A"), proposed by the Legislature in connection with the 2004-05 Budget Act and approved by the voters in November 2004, provides that the State may not reduce any local sales tax rate, limit existing local government authority to levy a sales tax rate or change the allocation of local sales tax revenues, subject to certain exceptions. Proposition 1A generally prohibits the State from shifting to schools or community colleges any share of property tax revenues allocated to local governments for any fiscal year, as set forth under the laws in effect as of November 3, 2004. Any change in the allocation of property tax revenues among local governments within a county must be approved by two-thirds of both houses of the Legislature. Proposition 1A provides, however, that beginning in fiscal year 2008-09, the State may shift to schools and community colleges up to 8% of local government property tax revenues, which amount must be repaid, with interest, within three years, if the Governor proclaims that the shift is needed due to a severe state financial hardship, the shift is approved by two-thirds of both houses and certain other conditions are met. The State may also approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county. Proposition 1A also provides that if the State reduces the VLF rate currently in effect, 0.65 percent of vehicle value, the State must provide local governments with equal replacement revenues. Further, Proposition 1A requires the State, beginning July 1, 2005, to suspend State mandates affecting cities, counties and special districts, excepting mandates relating to employee rights, schools or community colleges, in any year that the State does not fully reimburse local governments for their costs to comply with such mandates.

Future Initiatives

Article XIII A, Article XIII B, Article XII C, Article XIII D and Propositions 62 and 1A were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time, other initiative measures could be adopted, further affecting revenues of the County or the County's ability to expend revenues. The nature and impact of these measures cannot be predicted by the County.

ECONOMIC AND DEMOGRAPHIC INFORMATION

General

The County is the southernmost major metropolitan area in the State of California. The County covers 4,255 square miles, extending 70 miles along the Pacific Coast from the Mexican border to Orange County, and inland 75 miles to Imperial County. Riverside and Orange counties form the northern boundary. The County is approximately the size of the State of Connecticut.

Topography of the County varies from broad coastal plains and fertile inland valleys to mountain ranges in the east which rise to an elevation of 6,500 feet. Eastern slopes of these mountains form the rim of the Anza-Borrego Desert and the Imperial Valley. The Cleveland National Forest occupies much of the interior portion of the County. The climate is equable in the coastal and valley regions where most of the population and resources are located. The average annual rainfall in the coastal areas is approximately 10 inches.

The County possesses a diverse economic base consisting of a significant manufacturing presence in the fields of electronics and shipbuilding, a large tourist industry attracted by the favorable climate of the region, and a considerable defense-related presence which contributes approximately $10 billion annually to the retail and service businesses of the area.

In April 2004, PETCO Park opened in the City of San Diego, providing a 42,000 fixed seat baseball stadium for the San Diego Padres. PETCO Park is located in a 26-block neighborhood that contains existing and proposed hotels, office space, retail and housing units within walking distance from the San Diego Convention Center and the Gaslamp Quarter. The baseball stadium is also within walking distance of a Trolley station and nearby parking facilities.

The San Diego Convention Center began operation in November 1989. The Convention Center contains 615,701 square feet of exhibit space and 204,114 square feet of meeting/banquet rooms. In

September 2001, a major expansion of the Convention Center was completed which increased the square footage by approximately 50%. Major conventions and trade shows are scheduled into the year 2009.

The County is also growing as a major center for culture and education. Over 30 recognized art organizations, including the San Diego Opera, the Old Globe Theatre productions, the La Jolla Chamber Orchestra, as well as museums and art galleries, are located in the County. Higher education is provided through five two-year colleges and six four-year colleges and universities.

In addition to the City of San Diego, other principal cities in the County include Carlsbad, Chula Vista, Oceanside, El Cajon, Escondido, La Mesa and National City. Most County residents live within 20 miles of the coast. Farther inland are agricultural areas, principally planted in avocados and tomatoes, while the easternmost portion of the County has a dry, desert-like topography.

The County is the delivery system for federal, state and local programs. The County provides a wide range of services to its residents including: (1) regional services such as courts, probation, medical examiner, jails, elections and public health; (2) health, welfare and human services such as mental health, senior citizen and child welfare services; (3) basic local services such as planning, parks, libraries and Sheriff's patrol to the unincorporated area, and law enforcement and libraries by contract to incorporated cities; and (4) infrastructure such as roads, waste disposal and flood control to the unincorporated area of the County.

County Government

The County was incorporated on February 18, 1850, and functions under a charter adopted in 1933, as subsequently amended from time to time. The County is governed by a five-member Board of Supervisors elected to four-year terms in district nonpartisan elections. The Board of Supervisors appoints the Chief Administrative Officer and the County Counsel. The Chief Administrative Officer appoints the Chief Financial Officer. Elected officials include Assessor/Recorder/County Clerk, District Attorney, Sheriff and Treasurer-Tax Collector.

Population

There are 18 incorporated cities in the County, and a number of unincorporated communities. For many years the population of the County has grown at a greater rate than that of either California or the nation. The County population as of January 2005 was estimated to be approximately 3,051,280, making it the third largest County by population in California and the sixteenth largest Metropolitan Statistical Area in the United States. The 2005 population increased 1.26% from 2004.

The following table shows changes in the population in the County, the State and the United States for the years 1995 to 2005.

POPULATION ESTIMATES[1]
(In Thousands)

Year	San Diego County	Percent Change	State of California	Percent Change	United States[2]	Percent Change
1995	2,613	—	31,617	—	262,803	—
1996	2,621	0.31%	31,837	0.70%	265,229	0.96%
1997	2,653	1.23	32,207	1.16	267,784	0.92
1998	2,703	1.88	32,657	1.40	270,248	0.90
1999	2,751	1.78	33,140	1.48	272,691	0.90
2000	2,813	2.25	33,873	2.22	282,192	3.48
2001	2,863	1.77	34,441	1.91	285,102	1.03
2002	2,920	1.99	35,088	1.87	287,941	0.99
2003	2,971	1.74	35,691	1.71	290,789	1.04
2004	3,013	1.41	36,271	1.62	293,655	0.99
2005	3,051	1.26	36,810	1.48	N/A[3]	N/A[3]

Sources: State of California Department of Finance; U.S. Bureau of the Census
(1) As of January 1 of the year shown.
(2) As of July 1 of the year shown.
(3) Information not available.

Employment

The County's total labor force, the number of persons who work or are available for work, averaged approximately 1,493,200 in 2004. The number of employed workers in the labor force averaged approximately 1,422,500. The following table sets forth information regarding the size of the civilian labor force, employment and unemployment rates for the County, the State and the United States for the years 2000 through 2005.

CIVILIAN LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT*
ANNUAL AVERAGES 2000-2005
By Place of Residence
(In Thousands)

	2000	2001	2002	2003	2004	2005[(1)]
County of San Diego						
Labor Force	1,391.1	1,417.7	1,458.0	1,482.2	1,493.2	1,499.1
Employment	1,349.4	1,371.8	1,395.6	1,419.1	1,422.5	1,439.1
Unemployment Rate	3.0%	3.2%	4.3%	4.3%	4.7%	4.0%
State of California						
Labor Force	16,869.7	17,150.1	17,326.9	17,414.0	17,552.3	17,660.1
Employment	16,034.1	16,217.5	16,165.1	16,223.5	16,459.9	16,734.3
Unemployment Rate	5.0%	5.4%	6.7%	6.8%	6.2%	5.2%
United States						
Labor Force	142,583.0	143,734.0	144,863.0	146,510.0	147,401.0	148,762.0[(2)]
Employment	136,891.0	136,933.0	136,485.0	137,736	139,252.0	141,099.0[(2)]
Unemployment Rate	4.0%	4.7%	5.8%	6.0%	5.5%	5.2%[(2)]

Sources: County and State Data - California Employment Development Department; National Data – U.S. Department of Labor, Bureau of Labor Statistics.
* Data not seasonally adjusted; March 2004 Benchmark.
(1) As of April 1 of the year shown.
(2) Beginning in January 2005, data are not strictly comparable with data for 2004 and earlier years because of the revisions in the population controls used in the household survey.

The following table sets forth the annual average employment within the County by employment sector, other than farm industries, for 2000 through 2004. The service sector constitutes the largest non-farm employment sector in the County, representing approximately 51% of all non-farm employment.

SAN DIEGO COUNTY
NON-AGRICULTURAL LABOR FORCE AND INDUSTRY EMPLOYMENT
ANNUAL AVERAGES
2000-2004
(In Thousands)

Employment Sector	2000	2001	2002	2003	2004
Mining	0.3	0.3	0.3	0.3	0.4
Construction	69.7	75.1	76.4	80.2	87.4
Manufacturing	122.6	119.0	112.3	105.3	104.2
Wholesale and Retail Trade	172.9	177.1	179.3	182.4	186.2
Transportation, Warehousing and Utilities	29.8	32.0	29.3	27.3	28.4
Services					
Information	39.2	38.8	37.7	36.9	36.4
Financial Activities	71.2	72.0	75.0	79.9	81.6
Professional and Business Services	195.2	198.2	201.7	201.2	205.1
Educational and Health Services	115.3	116.0	119.7	121.8	121.3
Leisure and Hospitality	129.0	131.4	133.8	140.7	145.3
Other Services	42.2	44.9	45.6	46.8	47.7
Government	206.6	213.8	219.7	217.3	214.7
Total	1,193.8	1,218.4	1,230.7	1,240.1	1,258.6

Source: California Employment Development Department.

Regional Economy

In recent years the County has enjoyed economic stability, out pacing the State economy despite a general recession in the State. Much of this strength was evidenced by and due to outstanding employment gains, population growth, personal income increases, and high levels of commercial and industrial development.

The Gross Regional Product ("GRP") for 2003 rose to $129.2 billion from $122.5 billion in 2002 and is forecast to rise to $137.2 billion in 2004. The GRP is an estimate of the value for all goods and services produced in the region. The following table presents the County's GRP from 1996 through 2004.

COUNTY OF SAN DIEGO
GROSS REGIONAL PRODUCT
1996-2004

Year	Gross Regional Product (In Billions)	Annual Percent Change Current Dollars San Diego	Real Change* San Diego
1996	$ 79.6	5.9%	4.1%
1997	86.1	8.2	6.5
1998	94.4	9.7	8.5
1999	103.1	9.2	8.1
2000	112.4	9.0	7.0
2001	117.0	4.1	2.0
2002	122.5	4.7	2.7
2003(1)	129.2	5.5	3.5
2004(2)	137.2	6.2	4.2

Sources: Bureau of Economic Analysis; Economic Research Bureau of the Greater San Diego Chamber of Commerce.
* Adjusted using the GDP/GSP Implicit Price Deflator.
(1) Estimate.
(2) Forecast.

Economic activity and population growth in the local economy are closely related. Helping to sustain the County's economy is the performance of three basic industries of the region, which consist of manufacturing, the military, and tourism. The U.S. Department of Defense contributes about $10 billion annually to the local economy, through wages paid to the uniformed military and civilian personnel, and for equipment and services purchased from local businesses. San Diego's military presence is anticipated to remain relatively stable and may even increase due to the consolidation of military operations and facilities from elsewhere in California, the West, and throughout the United States. The Department of Defense closed and vacated the Naval Training Center in 1997. However, three procurement agencies have recently relocated to San Diego, including the Naval Space and Warfare Systems Command, the Naval Aviation Engineering Servicing Unit, which hires private contractors to service jets, and the Naval Aviation Technical Service Facility, which stores approximately 10 million jet blueprints.

Building Activity

Building permit valuation for both residential and non-residential construction in the County in 2004 increased over 2003 levels by more than 6%. Measures limiting new housing remain in effect in areas throughout the County, resulting in a 5.2% increase in residential valuations. Non-residential valuations increased 0.06%.

Annual total building permit valuation and the annual unit total of new residential permits from 2000 through 2004 are shown in the following table.

COUNTY OF SAN DIEGO
BUILDING PERMIT ACTIVITY
2000-2004
(In Thousands)

	2000	2001	2002	2003	2004
Valuation:					
Residential	$3,008,203	$3,169,516	$3,475,113	$3,683,807	$3,875,359
Non-Residential	1,391,497	1,189,910	1,168,866	1,169,397	1,288,130
Total	$4,399,700	$4,359,426	$4,643,979	$4,853,204	$5,163,489
New Housing Units:					
Single Family	$ 9,167	$ 9,326	$ 9,749	$ 9,455	$ 9,555
Multiple Family	6,760	6,324	5,989	8,859	7,751
Total	$15,927	$15,650	$15,738	$18,314	$17,306

Source: Construction Industry Research Board.

Commercial Activity

Consumer spending for 2003 resulted in approximately $40,863,978 in taxable sales in the County. The following table sets forth information regarding taxable sales in the County for the years 2000-2003.

COUNTY OF SAN DIEGO
TAXABLE SALES
2000-2004
(In Thousands)

Type of Business	2000	2001	2002	2003
Apparel Stores	$ 1,182,173	$ 1,274,552	$ 1,374,858	$ 1,466,233
General Merchandise	4,307,562	4,445,352	4,557,457	4,832,286
Specialty Stores	3,663,924	3,718,292	3,803,803	4,144,293
Food Stores	1,557,244	1,595,933	1,650,104	1,685,203
Home Furnishings/Appliances	1,237,271	1,314,860	1,353,158	1,458,403
Eating and Drinking Establishments	3,211,306	3,366,463	3,505,859	3,757,136
Building Materials	2,104,100	2,343,008	2,510,931	2,757,706
Automotive	6,955,856	7,426,582	7,862,366	8,563,690
All Other Retail Stores	733,653	778,296	803,063	855,601
Business and Personal Services	1,954,589	1,957,109	1,977,606	2,040,077
All Other Outlets	9,337,740	9,478,886	9,196,342	9,303,350
TOTAL ALL OUTLETS	$36,245,418	$37,699,333	$38,595,547	$40,863,978

Source: California State Board of Equalization, Taxable Sales in California.

Personal Income

The following table summarizes the total effective buying income and the median household effective buying income for the County, the State, and the United States between 2000 and 2004.

PERSONAL INCOME
2000 through 2004

Year and Area	Total Effective Buying Income (In Thousands)	Median Household Effective Buying Income
2000		
San Diego County	49,907,828	39,213
California	590,376,663	39,492
United States	4,877,786,658	37,233
2001		
San Diego County	54,337,662	44,292
California	652,190,282	44,464
United States	5,230,824,904	39,129
2002	55,210,119	44,146
San Diego County	650,521,407	43,532
California	5,303,481,498	38,365
United States		
2003		
San Diego County	54,831,958	42,315
California	647,879,427	42,484
United States	5,340,682,818	38,035
2004		
San Diego County	57,680,880	43,346
California	674,721,020	42,924
United States	5,466,880,008	38,201

Source: Sales and Marketing Management – Survey of Buying Power.

Transportation

Surface, sea and air transportation facilities serve County residents and businesses. Interstate 5 parallels the coast from Mexico to the Los Angeles area and points north. Interstate 15 runs inland, leading to Riverside-San Bernardino, Las Vegas, and Salt Lake City. Interstate 8 runs eastward through the southern United States.

San Diego's International Airport (Lindbergh Field) is located approximately three miles northwest of the downtown area and sits on 614 acres. The facilities are owned and maintained by the San Diego County Regional Airport Authority and are leased to commercial airlines and other tenants. The airport is California's third most active commercial airport, served by 18 passenger carries and six cargo carriers. In addition to San Diego International Airport there are two naval air stations and seven general aviation airports located in the County.

Public transit in the metropolitan area is provided by the Metropolitan Transit Development Board. The San Diego Trolley, developed by the Metropolitan Transit Development Board beginning in

1979, has been expanded. A total of 17.6 miles were added to the original 108 miles; construction was completed in 1990.

San Diego is the terminus of the Santa Fe Railway's main line from Los Angeles. Amtrak passenger service is available at San Diego, with stops at Solana Beach and Oceanside in the North County.

San Diego's harbor is one of the world's largest natural harbors. The Port of San Diego is administered by the San Diego Unified Port District, which includes the cities of San Diego, National City, Chula Vista, Imperial Beach, and Coronado.

Visitor and Convention Activity

An excellent climate, proximity to Mexico, extensive maritime facilities, and such attractions as the San Diego Zoo and Wild Animal Park, Sea World, Cabrillo National Monument, and Palomar Observatory allow San Diego to attract a high level of visitor and convention business each year. Contributing to the growth of visitor business has been the development of the 4,600-acre Mission Bay Park at San Diego and the construction of meeting and convention facilities at the San Diego Community Concourse.

San Diego's visitor industry is a major sector of the region's economy. Visitor revenues in San Diego County reached approximately $5.5 billion in 2004, according to an estimate by the San Diego Convention and Visitors Bureau, an increase of approximately $200 million from the prior year. The County hosted 47 conventions and trade shows in 2004, attended by approximately 399,900 delegates, who spent approximately $362,325,280.

Education

Forty-two independent school districts provide educational programs for the elementary and secondary public school children in the County. Each school system is governed by a locally elected board of education and administered by a superintendent or other chief administrative officer appointed by the board. In the County there are three types of school districts: elementary, union high and unified. Elementary districts educate elementary students, union high districts educate for the most part secondary students, and unified districts educate both elementary and secondary students. There are currently 12 unified, 24 elementary and 6 union high school districts in the County.

Community colleges in California are locally operated and administered two-year institutions of higher education. They offer Associates in Arts and Associates in Science degrees and have extensive vocational curricula. There are five community college districts in the County with students at eleven campuses and numerous adult and community centers.

Among the institutions of higher education offering bachelors and graduate programs in metropolitan San Diego are San Diego State University, the University of California, San Diego, National University, the University of San Diego, Point Loma College, California State University - San Marcos, Alliance International University and the University of Phoenix.

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APPENDIX B

COUNTY OF SAN DIEGO AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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MACIAS GINI & COMPANY LLP

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INDEPENDENT AUDITOR'S REPORT

Board of Supervisors
County of San Diego, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the County of San Diego, California (County), as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of County management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the First 5 Commission of San Diego (Commission), the discretely presented component unit, and the San Diego County Employees Retirement Association (SDCERA), which represents 60%, 65%, and 8% of the assets, net assets/fund balances and revenues, respectively, of the aggregate remaining fund information. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Commission and SDCERA, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of SDCERA were not audited in accordance with *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the County as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2004, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, budgetary comparison information, and schedule of funding progress on pages 21 through 35, 92 through 97, and 99, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we and the other auditors did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Macias Gini & Company LLP

Certified Public Accountants

Los Angeles, California
December 23, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Required Supplementary Information

This section of the County of San Diego's (County) Comprehensive Annual Financial Report provides a narrative overview and analysis of the basic financial activities of the County as of and for the year ended June 30, 2004. The intent of the information presented here, in conjunction with the Letter of Transmittal is to provide the reader with a clearer picture of the County's overall financial status. Unless otherwise indicated, all amounts in this section are expressed in thousands of dollars.

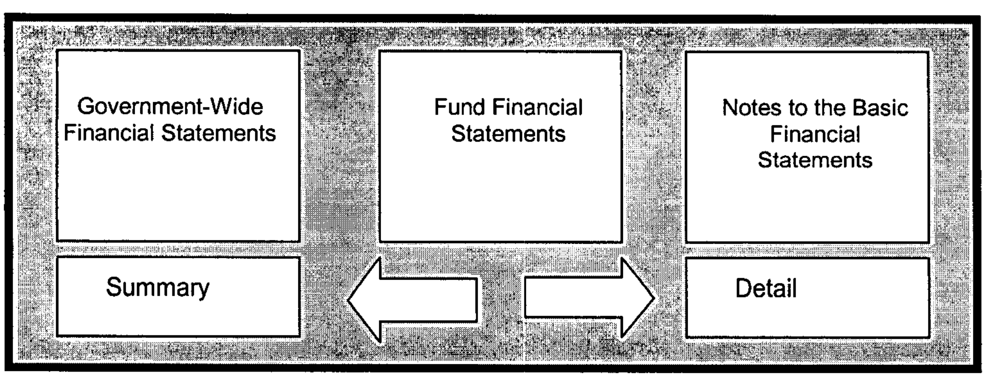
FINANCIAL HIGHLIGHTS

- The assets of the County exceeded liabilities at the close of the fiscal year 2003-2004 by $1.98 billion (*net assets*). Of this amount, $170 million is restricted for specific purposes (*restricted net assets*), and $2.4 billion is invested in capital assets, net of related debt. The remaining portion of the net assets represents a deficit balance in unrestricted net assets of $590 million.
- Total net assets decreased by $356 million. For governmental activities, expenses exceeded revenues by $363 million. For business type activities, revenues exceeded expenses by $7 million.
- General revenues for governmental activities were $1.1 billion. Of this amount, $626 million or 55 percent was attributable to sales tax and vehicle license fees while property taxes accounted for $497 million or 43 percent.
- Program revenues for governmental activities were $1.8 billion. Of this amount, $1.3 billion or 73 percent was attributable to operating grants and contributions while charges for services accounted for $422 million or 23 percent.
- The total expenses for governmental activities were $3.3 billion. Public protection accounted for $1.2 billion or 35 percent of this amount while public assistance accounted for $1.1 billion or 32 percent. Additionally, health and sanitation accounted for $565 million or 17 percent.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements comprise three components: 1) **Government-wide** financial statements 2) **Fund** financial statements, and 3) **Notes** to the basic financial statements. Required Supplementary Information is included in addition to the basic financial statements.

The illustration below depicts the required components of the basic financial statements.



MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Required Supplementary Information

Government-wide Financial Statements are designed to provide readers with a broad overview of County finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all County assets and liabilities, with the difference between the two reported as *net assets.* Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The statement of activities presents information showing how the County's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows.* Thus, revenue and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of these government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues *(governmental activities)* from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities).* The governmental activities of the County include general government, public protection, public ways and facilities, public assistance, health and sanitation, recreational and cultural, and education. The business-type activities of the County include airport operations, wastewater management and sanitation districts.

Fund Financial Statements are groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into three categories: *governmental funds, proprietary funds* and *fiduciary funds.*

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on *near-term inflows* and *outflows of spendable resources,* as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a county's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities.*

The County maintains twenty-eight individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the General Fund, the Tobacco Securitization Special Revenue Fund, and the Tobacco Securitization Joint Special Revenue Fund, all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the Combining Financial Statements and Supplementary Information section in this report.

Proprietary funds are generally used to account for services for which the County charges customers - either outside customers, or internal departments of the County. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The County maintains the following types of proprietary funds:

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Required Supplementary Information

- **Enterprise funds** are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The County uses enterprise funds to account for Sanitation Districts and Other (nonmajor) enterprise funds. Nonmajor enterprise funds are combined and aggregated. Individual fund data for each nonmajor enterprise fund is provided in the Combining Financial Statements and Supplementary Information section in this report.

- **Internal service funds** are an accounting device used to accumulate and allocate costs internally among the County's various functions. Internal service funds are used to account for the financing of public works and communications equipment; the financing of materials and supplies (purchasing); for start up services for new and existing county service districts; for the County's uninsured risk management activities; the financing of fleet services; for facilities management activities; for the financing of information technology services; and for the financing of clothing and personal sundry items for persons institutionalized at various county facilities. Additionally, mail services are included within the facilities function, and printing and record storage services are included in the purchasing function. Because all of these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

  The County's eight internal service funds are combined into a single, aggregated presentation in the proprietary funds financial statements. Individual fund data for the internal service funds is provided in the form of combining statements in the Combining Financial Statements/Schedules and Supplementary Information section in this report.

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Required Supplementary Information is presented concerning the County's General Fund budgetary schedule, and San Diego County Employees Retirement Association (SDCERA) pension schedules. The County adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with this budget. In addition, a budgetary comparison schedule has been provided for the Tobacco Securitization Special Revenue Fund for it was determined to be a major governmental fund. The SDCERA pension schedules have been provided to present SDCERA's progress in funding its obligation to provide pension benefits to County employees.

Combining Financial Statements/Schedules and Supplementary Information section of this report presents combining and individual fund statements and schedules referred to earlier that provide information for nonmajor governmental funds, enterprise funds and internal service funds and are presented immediately following the Required Supplementary Information section of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Required Supplementary Information

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets
June 30, 2004
(In Thousands)

		Governmental Activities		Business-type Activities		Total	
		2004	2003	2004	2003	2004	2003
Assets:							
Current and other assets	$	1,678,164	1,834,009	81,031	82,211	1,759,195	1,916,220
Capital assets		2,680,570	2,665,784	81,938	71,756	2,762,508	2,737,540
Total assets		4,358,734	4,499,793	162,969	153,967	4,521,703	4,653,760
Liabilities:							
Long-term liabilities		2,301,177	1,972,099	3,538	494	2,304,715	1,972,593
Other liabilities		231,636	339,539	1,588	1,806	233,224	341,345
Total liabilities		2,532,813	2,311,638	5,126	2,300	2,537,939	2,313,938
Net Assets:							
Invested in capital assets, net of related debt		2,324,806	2,261,697	78,485	71,293	2,403,291	2,332,990
Restricted		169,983	243,815		15	169,983	243,830
Unrestricted		(668,868)	(317,357)	79,358	80,359	(589,510)	(236,998)
Total net assets	$	1,825,921	2,188,155	157,843	151,667	1,983,764	2,339,822

Analysis of Net Assets

Net assets may serve over time as a use indicator of a government's financial position. In the case of the County, assets exceeded liabilities by $1.98 billion at the close of fiscal year 2003-2004. The County also had positive balances in two of its categories of net assets, (Invested in capital assets net of related debt and Restricted net assets). Unrestricted assets had a deficit balance of $590 million.

The largest portion of the County's net assets (121 percent) reflects its investment of $2.4 billion in capital assets (e.g. land, infrastructure, buildings, and equipment); less any related outstanding debt used to acquire those assets. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

Although the County's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be liquidated for these liabilities.

An additional portion of the County's net assets, $170 million (9 percent), represents resources that are subject to external restrictions on how they may be used. External restrictions include those imposed by grantors, contributors, laws/regulations of other governments, or restrictions imposed by law through constitutional provisions or legislation.

The remaining portion of the County's net assets represents a deficit unrestricted net assets balance of $590 million (an increase of $353 million). This deficit was due in large part to the issuance of $454 million in taxable pension obligation bonds.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Required Supplementary Information

Changes in Net Assets
For the Year Ended June 30, 2004
(In Thousands)

		Governmental Activities		Business-type Activities		Total	
		2004	2003	2004	2003	2004	2003
Revenues							
Program revenues:							
Charges for services	$	421,961	408,860	27,946	27,336	449,907	436,196
Operating grants and contributions		1,339,083	1,288,166	4,153	3,769	1,343,236	1,291,935
Capital grants and contributions		67,357	40,587	1,539	839	68,896	41,426
General revenues:							
Property taxes		496,917	459,340			496,917	459,340
Interest		18,452	30,213	417	1,437	18,869	31,650
State allocation of sales tax and vehicle license fees		625,577	636,225			625,577	636,225
Other		4,200	3,964			4,200	3,964
Total revenues		2,973,547	2,867,355	34,055	33,381	3,007,602	2,900,736
Expenses:							
General government		234,759	234,062			234,759	234,062
Public protection		1,173,532	1,140,484			1,173,532	1,140,484
Public ways and facilities		160,344	142,356			160,344	142,356
Public assistance		1,052,911	1,035,065			1,052,911	1,035,065
Health and sanitation		564,796	598,189			564,796	598,189
Recreational and cultural		26,493	23,520			26,493	23,520
Education		31,722	30,850			31,722	30,850
Interest expense		91,897	87,627			91,897	87,627
Sanitation Districts				15,828	15,216	15,828	15,216
Other Enterprise Funds				11,378	11,482	11,378	11,482
Total expenses		3,336,454	3,292,153	27,206	26,698	3,363,660	3,318,851
Excess(deficiency) before special item and transfers		(362,907)	(424,798)	6,849	6,683	(356,058)	(418,115)
Special Item: gain on sale of properties			474		27		501
Transfers		673	(160)	(673)	160		
Increase(decrease) in net assets		(362,234)	(424,484)	6,176	6,870	(356,058)	(417,614)
Net assets at beginning of year		2,188,155	2,612,639	151,667	144,797	2,339,822	2,757,436
Net assets at end of year	$	1,825,921	2,188,155	157,843	151,667	1,983,764	2,339,822

Analysis of Changes in Net Assets

The County's net assets decreased by $356 million during the fiscal year 2003-2004.

Governmental activities

Governmental activities decreased the County's net assets by $362 million. This decrease was largely due to the $450 million of contributions paid to SDCERA during fiscal year 2003-2004 to reduce the County's unfunded accrued actuarial liability. This was offset in part by a change in accounting estimate reflected as a reduction of $54 million to the public protection function expense on the Government-wide statement of activities that resulted from the reduction of the County's projected liability of landfill closure and postclosure costs from $101 million at June 30, 2003. For further information, please see the Notes to the basic financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Required Supplementary Information

Revenue

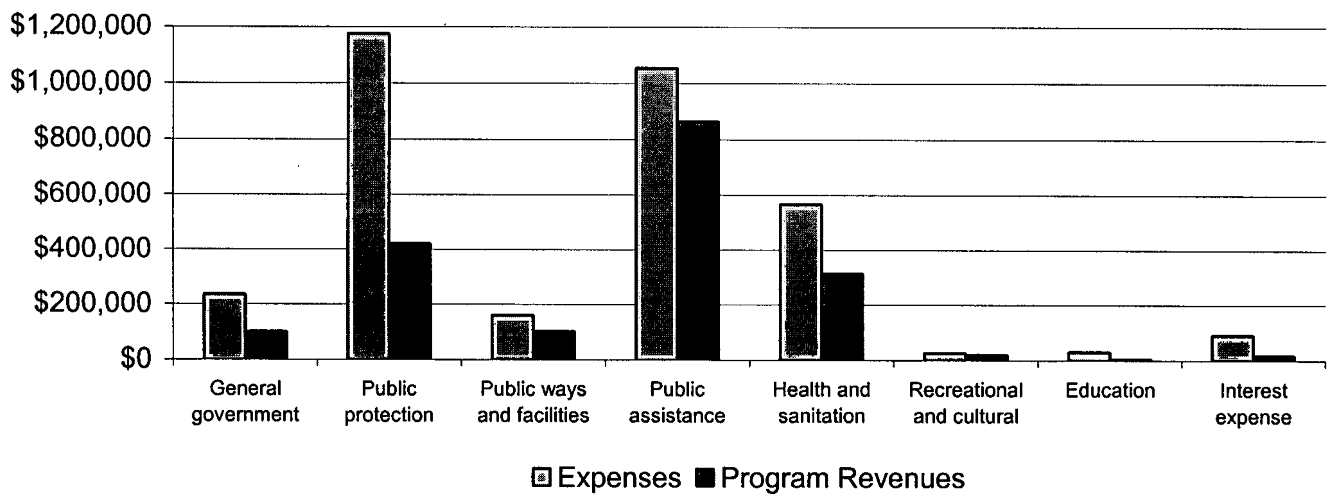
Total revenues for governmental activities were $2.97 billion, an increase of 4 percent or $106 million over the previous year.

Operating and capital grants and contributions increased by $78 million or 6 percent, due in part to donated infrastructure (roads), and monies received from governmental agencies related to Firestorm 2003.

Property tax revenues increased by $38 million or 8 percent during the year. Most of this increase was attributable to the strong real estate market and continued growth in the assessed value of property.

State allocation of sales tax and vehicle license fees decreased by $11 million or 2 percent. Most of this decrease was attributable to a decrease in motor vehicle license fee revenue received from the State.

Expenses and Program Revenues - Governmental Activities (In Thousands)



Expenses

Total expenses for governmental activities were $3.34 billion. Public protection is the largest function in expense (35 percent), followed by public assistance (32 percent) and health and sanitation (17 percent). These ratios for revenues and expenses are substantially similar to 2003. Of the total expenses, $1.1 billion, or 34 percent, were financed by taxes. Expenses increased by $44 million or 1 percent, as further explained below.

Public protection expenses increased by $33 million, or 3 percent. This amount includes a reduction of $54 million in expenses associated with a change in accounting estimate that resulted from the reduction of the County's projected liability of landfill closure and postclosure costs at June 30, 2003. Without this adjustment, the increase in public protection would have been $87 million or 8 percent due in part to costs incurred related to the October 2003 firestorm by the Office of Emergency Services and other departments within the Public Safety and Land Use and Environment Groups.

Public assistance expenses increased by $18 million or 2 percent. This was to an increase in salaries and benefits of $40 million, offset by pension costs of approximately $22 million

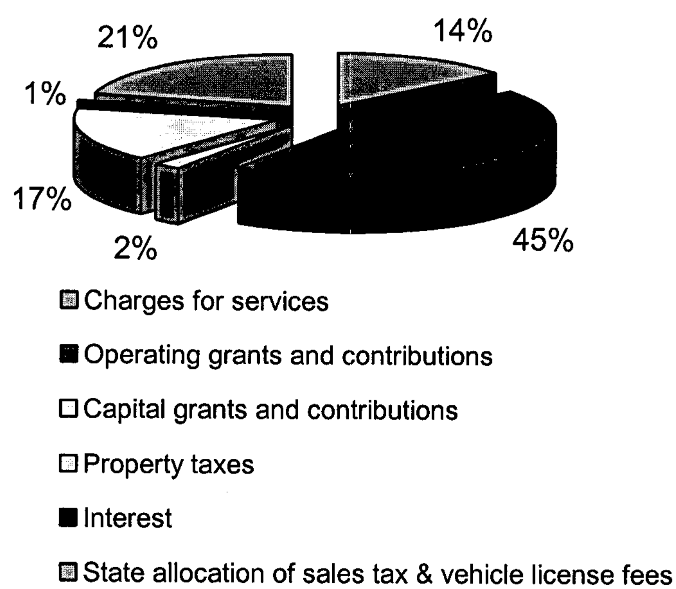
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Required Supplementary Information

Revenues By Sources

The County's governmental activities rely on several sources of revenue to finance ongoing operations. As shown, for governmental activities overall, without regard to program, operating grants and contributions are the largest single source of funds (45 percent). Operating grants and contributions are monies received from parties outside the County and are generally restricted to one or more specific programs. Examples of operating grants and contributions include State and Federal revenue for public assistance programs and for health and sanitation programs. General revenues such as property taxes and state allocation of sales tax and vehicle license fees are not shown by program, but are effectively used to support program activities Countywide. State allocation of sales tax and vehicle license fees (21 percent) and property taxes (17 percent) are the second and third largest sources of funds for the County.

At the end of fiscal year 2003-2004, total revenues for the governmental activities were $2.97 billion, while total expenses for governmental activities were $3.34 billion.

Revenues by Source - Governmental Activities (In Thousands)



Other factors concerning the finances of the County's major governmental funds are discussed in the Governmental Funds section of the "Financial Analysis of the County's Funds."

Business-type Activities

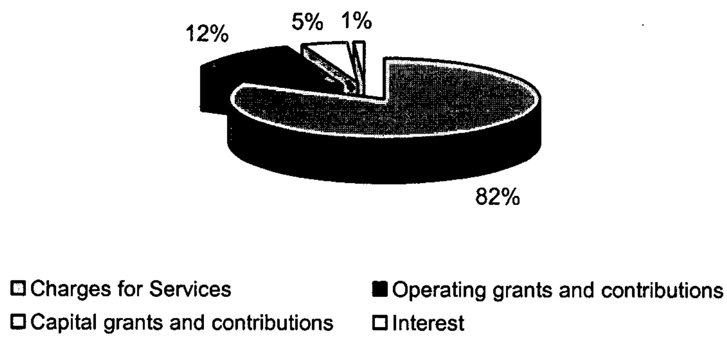
The County has two business-type activities: Sanitation Districts and Other. Business-type activities increased the County's net assets by $6 million.

Revenues

At June 30, 2004, total revenues for the business-type activities were $34 million. In keeping with the intent of recovering all or a significant portion of their costs through user fees and charges, business-type activities reported charges for services as their largest source of revenue (82 percent). Operating grants and contributions as well as capital grants and contributions accounted for 17 percent of business-type activities.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Required Supplementary Information

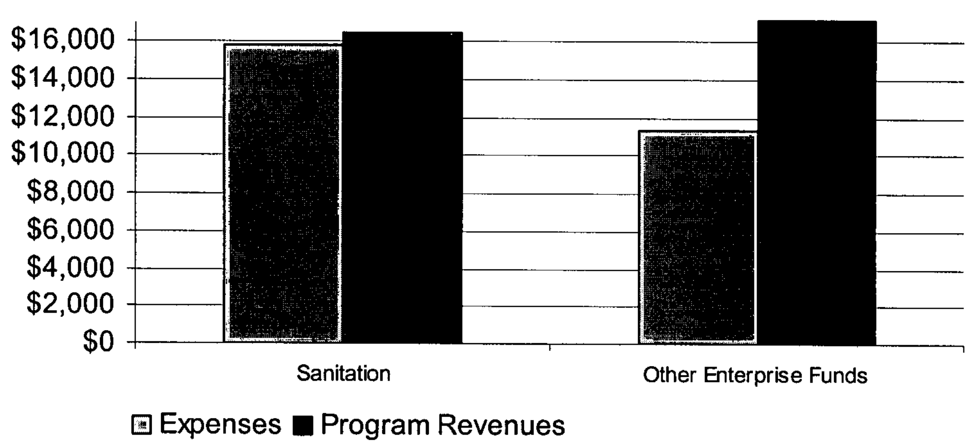
Revenues By Source - Business-Type Activities (In Thousands)



Expenses

At the end of fiscal year 2003-2004, the business-type activities reported total expenses of $27 million. The largest expense category was Sanitation Districts, which had expenses of $16 million or 58 percent of the total business activities. Other factors concerning the finances of the County's enterprise funds are discussed in the Proprietary Funds section of the "Financial Analysis of the County's Funds."

Expenses and Program Revenues - Business-Type Activities (In Thousands)



FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

The County uses fund accounting to demonstrate and ensure compliance with finance-related legal requirements.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Required Supplementary Information

Governmental Funds

The focus of the County's governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Types of Major Governmental Funds reported by the County include the General Fund, Tobacco Securitization Special Revenue Fund and the Tobacco Securitization Joint Special Revenue Fund. Nonmajor Governmental Funds include Special Revenue Funds, Debt Service Funds, and Capital Project Funds.

As of the end of fiscal year 2003-2004, the County's governmental funds reported combined ending fund balances of $1.29 billion, a decrease of $57 million in comparison with the prior year fund balance. $872 million of the total June 30, 2004 amount constitutes unreserved fund balance, which is available for spending at the County's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed, (1) to liquidate existing contracts and purchase orders ($114 million), (2) for landfill closure costs ($23 million), (3) to pay debt service ($78 million), and (4) for a variety of other purposes ($207 million).

Revenues for governmental functions overall totaled $2.9 billion representing a 3 percent increase. Expenditures for governmental functions, totaled $3.4 billion, a 1 percent increase from the fiscal year ended June 30, 2003.

GENERAL FUND
The General Fund is the chief operating fund of the County. At the end of fiscal year 2003-2004, the unreserved fund balance of the General Fund was $338 million, while total fund balance was $551 million, a decrease of $48 million from fiscal year 2002-2003. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 11 percent of total General Fund expenditures of $2.9 billion, while total fund balance represents 19 percent of that same amount.

TOBACCO SECURITIZATION SPECIAL REVENUE FUND
This Special Revenue Fund is used to account for the $411 million (net of closing costs and reserve requirements) the County received from the Tobacco Asset Securitization Corporation related to the sale of 25 years of tobacco settlement revenue in fiscal year 2001-2002. The County will continue to invest these funds in investment products to maximize the sustained long-term use of these dollars.

TOBACCO SECURITIZATION JOINT SPECIAL REVENUE FUND
This Special Revenue Fund accounts for the transactions of the San Diego County Tobacco Asset Securitization Corporation and Tobacco Securitization Joint Powers Authority, two component units that are blended into the County's financial statements.

Proprietary Funds

The County's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. The proprietary funds financial statements provide separate information for the Sanitation Districts Funds, which are considered to be major funds of the County. Conversely, the nonmajor Enterprise Funds and the Internal Service Funds are combined into single, aggregated presentations in the proprietary fund financial statements with the individual fund data provided in combining statements,

which can be found in the Combining Financial Statements/Schedules and Supplemental Information section of this report. Due to the quantitative nature of the Airport and the Wastewater Management Enterprise Funds, the county has elected to not report them as major funds beginning fiscal year 2003-04. Therefore, these funds have been included in the Other Enterprise Funds column in the basic financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Required Supplementary Information

Sanitation Districts
The change in net assets for the Sanitation Districts decreased from $2.4 million in fiscal year 2002-2003 to $977 thousand in fiscal year 2003-2004. This change was largely due to a 47 percent increase in expenses for repairs and maintenance (from $2.4 million to $3.5 million) and a 72 percent decrease in revenue from interest and dividends ($1 million). While the charges for services increased by 2 percent and the sewage processing costs decreased by 5 percent, the increased revenue and the savings amounted to $781 thousand.

Fiduciary Funds

The County maintains fiduciary funds for the assets of the Pension Trust Fund, the Investment Trust Fund, and the Agency Funds.

Pension Trust Fund
This fund is under the control of the Board of Retirement. The fund accumulates employer and employee contributions and earnings from the fund's investments. Disbursements are made from the fund for retirement, disability and death benefits and refunds. This fund includes all assets of the retirement system. As of the end of fiscal year 2003-2004, the net assets of the Pension Trust Fund totaled $5.5 billion, an increase of $1.4 billion over the prior year. The change is primarily due to the following: (a) County and member contributions of $734 million, including $450 million in pension obligation bond proceeds; (b) appreciation in the fair value of pension trust investments and investment income of $936 million; less (c) member benefits paid and pension costs of $265 million.

Investment Trust Fund
This fund was established to account for the external portion of the County Treasurer's investment pool. This fund consists of school districts, special districts, and funds held for other governments. The Investment Trust Fund's net assets totaled $2.4 billion, a decrease in net assets of $81 million, primarily resulting from distributions of teeter and school bond proceeds.

Agency Funds
The Agency Funds maintain assets held in an agent capacity for other governments, organizations and individuals. These assets do not support the County's programs or services. Any portion of the Agency Funds' assets held at fiscal year end for other County funds, are reported in those funds rather than in the Agency Funds.

General Fund budgetary highlights

The County's final budget differs from the original budget in that it contains supplemental appropriations approved during the fiscal year for various programs and projects, as well as transfers of appropriations, budget corrections, re-budgets, and account reclassifications. At June 30, 2004, the variances between the original and final budgets for the deficiency of revenues under expenditures ($527.6 million) and for other financing sources, $450.1 million, resulted in a total change of ($77.5 million) in budgeted fund balance between the original and final budgets.

Increased appropriations caused significant variances between the original and the final budgets as follows:

- $29.2 million related to Firestorm 2003 activities in public protection, health and sanitation, and recreation and culture. The source of funding was $19.6 million in fund balance, $3.0 million in transfer of appropriations from contingency reserves, and $6.6 million in State and Federal grants and other revenue. The appropriations related to immediate responses to emergency situations as well as to longer-term efforts of repairs and prevention and affect both private and public real and personal property. Specific programs included burned automobile and other debris removal, counseling and other assistance for fire victims, repair of guardrails on County-owned roads, and repairs to County parks.
- $454.1 million in long-term debt proceeds from the issuance of Taxable Pension Obligation Bonds. Bond proceeds were expended across all functions for the purpose of reducing the unfunded actuarial accrued liability to SDCERA.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Required Supplementary Information

- $30.8 million for a new electronic voting system in the General function, funded by Federal and State grants, and management reserves.
- $17.7 million for salaries and benefits across all functions for incentives earned in Fiscal Year 2002-2003 through the County's Quality First program, funded by fund balance.
- $14.7 million for services by the Health & Human Services Agency for health and sanitation and public assistance, funded by increased intergovernmental revenue.
- $8.1 million net change in appropriated management reserves for future one-time projects, across all functions, including new reserves of $17.0 million appropriated from prior year's fund balance.
- In public protection, $3.5 million for a new fire and safety helicopter funded by fund balance and $4.7 million for appropriations related to homeland security, funded by a combination of State funds and fund balance
- $13.3 million for costs in health and sanitation associated with closing a former County-owned landfill, based on funds set aside for that purpose.

In addition, the installation of a new accounting system added $19.4 million in budgeted revenue associated with prior year encumbrances.

Actual revenues fell short of the final budgeted amounts by $123 million, while expenditures fell short of the budget by $268.8 million. The combination of revenue and expenditure shortfalls resulted in a net favorable operating variance of $145.8 million. Other financing sources and uses of funds resulted in a favorable variance from budget of $39.7 million; an increase to the reserve for inventories of materials and supplies, a favorable variance of $.2 million. These combined variances result in a net variance in fund balance of $185.8 million. Some highlights of the actual results compared to budgeted results are:

Vehicle License Fee (VLF) Reduction. Collected by the State and distributed to cities and counties as general purpose revenues, the VLF is an annual fee on the ownership of registered vehicles. Since 1999, California drivers had paid a lower VLF rate than the legislated amount, with the shortfall backfilled by State revenues. The acceleration of the State budget crisis in June 2003 resulted in a series of events that first suspended the backfill and subsequently eliminated VLF general purpose revenues for the County altogether. (The County continues to receive VLF under realignment health, mental health, and social services programs.) With a budget of $195.0 million and revenues of $150.8 million budget, the unfavorable variance due to the backfill loss was $44.2 million. (See also the VLF discussion in the section below entitled "Economic Factors and Next Year's Budget and Rates.)

Salaries and Benefits. In the continuing environment of uncertainty over State and Federal funding, many County functions have deferred hiring staff for ongoing programs in anticipation of future budget constraints that began in fiscal year 2003-2004. The total favorable variance in this category was $43.0 million across all functions.

Health and Human Services Agency. Funded by a combination of State, Federal, and County revenues, most Agency programs are carried out in the functional areas of health and sanitation and public assistance, with favorable expenditure variances of $35.2 million and $71.7 million, respectively. The expenditure variances resulted from changes in demand for services in various programs, reductions in service level requirements, decreased need for contracted services, and reduced aid payments. These lowered expenditures were offset by corresponding reductions in Federal and State revenue.

Debt management. The County planned to pay down an additional $53.2 million of the principal debt of the 2002 Pension Obligation Bonds (POBs). Due to market conditions this did not occur. Instead, appropriations of $12.1 million were used to prepay SANCAL debt, resulting in a positive variance of $41.5 million in transfers out. The savings were re-budgeted for fiscal year 2004-2005 to defease the remaining 1994 POBs.

Strong real estate markets. The real estate market in San Diego County has been robust for several years due to low interest rates and high demand for residential and commercial real estate. This segment of the economy contributed to positive variances in several revenue categories, including $38.4 million in property and other taxes and $9.1 million in charges for document and recording services.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Required Supplementary Information

Delayed expenditures. Various County projects such as maintenance and information technology take place over more than one fiscal year; however, at inception they are budgeted at full expected cost, resulting in favorable expenditure variances that are re-budgeted in the new fiscal year. For example, in public protection, $8.2 million in unexpended appropriations for information technology projects, regional communications system expansion, and the East Mesa Juvenile Detention Facility were re-budgeted in fiscal year 2004-05. Also, $3.5 million appropriated during the year for a fire and safety helicopter as noted above was not expended and was re-budgeted in fiscal year 2004-05.

Firestorm 2003. Not all of the funds that were appropriated to cover estimated costs of Firestorm 2003 recovery programs were expended. In most cases, the remaining funds have been re-budgeted and will be spent in subsequent years. In recreation and culture, for example, $4.3 million appropriated for parks repair and other fire-related projects were unspent. Lesser unspent amounts for other Firestorm-impacted programs included abandoned vehicle abatement ($.1 million) and consultant costs for plan checks ($.2 million).

Funding for public protection. The County received several grants that had not been budgeted, including $10.9 million for reimbursement of prior years' costs under the Federal Southwest Border Grant program. In another revenue category, however, Charges for Services, revenue from the cities that contract with the Sheriff is $5.5 million below budget, due to reduced demand and adjustments.

Reserves. The County appropriates annually management and contingency reserves based on both ongoing general purpose revenues and prior years' fund balance for a variety of one-time capital and operating expenditures as well as potential emergencies, such as Firestorm 2003. Unexpended reserves resulted in a positive variance of $27.1 million. In addition, in fiscal year 2003-04, the County set aside $23.0 million for economic uncertainty with the intent that it not be spent unless unusual needs arose; of that amount, $22.1 million was unexpended at year-end.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2004, the County's capital assets for both the governmental and business-type activities was $2.8 billion net of accumulated depreciation. Investment in capital assets includes land, construction in progress, structures and improvements, equipment, and infrastructure (including roads, bridges, flood channels, and traffic signals). The significant capital asset activity in fiscal year 2003-2004 was as follows:

Governmental Activities

- $31.25 million towards the construction and improvement of County maintained roads, bridges, and other road related infrastructure. An additional $31 million was donated by developers.
- $10.45 million towards the construction of the East Mesa Juvenile Detention Facility. Total project costs are estimated at $52.95 million.
- $4.41 million for the acquisition of Boulder Oaks Ranch real property (Ramona) for wildlife habitat preservation and restoration.
- $3.29 million for the acquisition of real property in the Otay River Valley area for open space habitat restoration and passive recreation.
- $2.63 million for acquisition of real property in the Ramona area for an intergenerational community campus.
- $2.33 million for Multiple Species Conservation Program acquisitions.
- $2.32 million for the Kearny Mesa Assessor Recorder County Clerk building. Total project costs are estimated at $6.87 million.
- $2.30 million towards the construction of the Julian Shared Use Library. Total project costs are estimated at $3.09 million.
- $2.2 million for the acquisition of real property in North County for the future site of offices for Assessor/Recorder/County Clerk, the Department of Planning and Land Use, and the Department of Environmental Health.
- $2.04 million for a remodel of the Sheriff's Crime Lab. Total project costs are estimated at $2.6 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Required Supplementary Information

- $1.65 million towards the construction of the Tijuana River Valley Sports Park. Total project costs are estimated at $2.77 million.
- $23.9 million towards the construction of numerous other capital outlay projects.
- During fiscal year 2003-2004, capital assets valued at $21.2 million, representing the four transit centers, was removed from inventory as a result of the divestiture of the County Transit System to the Metropolitan Transit Development Board.

Business-Type Activities
- $3.19 million for the acquisition of land for Palomar Airport.
- $2.19 million towards improvements in the Spring Valley Sanitation district including Outfall Sewer Rehabilitation, improvements to Central Avenue Sewer, Jamacha pump station modifications, and La Presa Trunk upgrade.
- $533 thousand towards the replacement of the Galloway Pump Station Force Main in Alpine Sanitation District. Total project costs are estimated at $2.1 million.
- $232 thousand towards the replacement of the Julian Sanitation District septic tank and aerobic digester. Total project costs are estimated at $629 thousand.

For government-wide financial statement presentation, governmental fund depreciable capital assets were depreciated from the acquisition date to the end of the current fiscal year. Governmental fund financial statements record capital asset purchases as expenditures.

Additional information about the County's capital assets can be found in the notes to the basic financial statements.

Capital Commitments

As of June 30, 2004, capital commitments included the following:

- $32.7 million for the Registrar of Voters Integrated Voting System and the Medics Health Information System
- $35.7 million for the Valley Center Road, Riverside Drive, Camino Canada North County Animal Shelter, Otay Valley Regional Park, Spring Valley Gym/Teen Center, Polinsky Nursery, Vista Detention and the Information Technology Enterprise Resource Planning System financing
- $3.9 million for the Galloway Wastewater Pump Station and the Jamacha Blvd Sewer

Long-Term Obligations

At June 30, 2004, the County had outstanding governmental activity long-term obligations of $2.3 billion. Of this amount, $344 million pertains to outstanding certificates of participation, $37 million pertains to capital leases, and $1.9 billion pertains to other long-term obligations that include $1.27 billion of taxable pension obligation bonds, $440 million of San Diego County Tobacco Asset Securitization Corporation Bonds, $98 million for claims and judgments, $47 million for landfill closure and postclosure costs, $78 million for compensated absences, $6 million for other loans, $4 million for Redevelopment Agency revenue bonds, and $1 million for arbitrage rebate.

Long-term obligations for business-type activities totaled $3.5 million and consisted of $3 million for capital loans, $345 thousand for compensated absences and $195 thousand for a long-term contract payable in the Spring Valley Sanitation District.

During fiscal year 2003-2004, the County's total principal amount of bonds and notes payable for governmental activities increased by $386 million, before giving affect to the unamortized issuance premiums, discounts and unamortized deferred amount on refunding. The increase is due primarily to the County of San Diego's issuance of $454 million in taxable pension obligation bonds, offset by $70 million in principal debt service payments. The general long-term obligations for the business-type activities increased by $46 thousand due to an increase in compensated absences liabilities.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Required Supplementary Information

The County's credit ratings on its bonded program are as follows:

	Moody's	Standard & Poor's	Fitch Ratings
Certificates of Participation	A1	AA-	AA-
Pension Obligation Bonds			
1994 Series A	Aa3	AA-	Not Rated
2002 Series A, B & C	Aa3	AA-	AA-
2004 Series A, B & C	Aa3	AA-	AA-

In addition, the County has an Issuer Credit Rating of Aa2 from Moody's and AA from Standard & Poor's. These ratings reflect the County's favorable general credit characteristics, which include a strong local economy, a sound financial position and a moderate debt profile. On 2004, Moody's revised the County's negative outlook to stable and Standard & Poor's revised their outlook from positive to stable.

Useful bond ratios to management, citizens, and investors are as follows:

	Fiscal Year 2004	Fiscal Year 2003
Net Bonded Debt	$ 1,576,479	$ 1,191,754
Net Bonded Debt per Capita	523	402
Ratio of Net Bonded Debt to Assessed Value	.62 percent	.51 percent

Additional information about the County's long-term obligations can be found in the notes to the basic financial statements.

Economic Factors and Next Year's Budget and Rates

- The fiscal year 2004-2005 General Fund budget used $129.2 million out of $215.4 million in unreserved fund balance and $4.0 million of reserved fund balance. Fund balance is used as a source of funds for one-time items.

- The development of the fiscal year 2004-2005 budget was based on expectations for demand for services and availability of funding to support those services. Two related factors pose significant negative risks to the County's expectations: the State of California's forecasted budget imbalance for 2005-06 and beyond and the continuing sluggishness of the State's economy.

  - The U.S. and California economies continue to give mixed signals regarding solid growth. The San Diego economy, however, continues to show positive growth (i.e., gross regional product at 2.0% for 2001, at 2.7% for 2002, 3.5% for 2003, and at 4.2% for 2004).

  - The State of California's budget crisis, which began in fiscal year 2001-2002, was fueled by a decline in taxable income. The decline in taxable income was directly related to the weakened economy and the huge stock market declines that occurred beginning in March 2000. Counties, as agents of the State, rely heavily on State revenues to fund locally provided programs. Further, the State has taken action in the past which has intertwined State revenues with local discretionary revenues. (See discussion on VLF below.) The State's budget crisis is not likely to be resolved soon. The Legislative Analyst's Office has estimated the budget shortfall will exceed $6.0 billion for fiscal year 2005-2006.

- The County's general purpose revenues, with the exception of VLF, (i.e., property tax, sales tax, real property transfer tax, transient occupancy tax and other minor revenues) continued to perform well. Specifically:

  - The largest source of general purpose revenues is property taxes, representing 55% of the total. Property taxes were not directly impacted by weakness in the State economy. The demand for

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Required Supplementary Information

housing, boosted by low interest rates, has remained strong as attested to by significant increases in property values. For the last four years, local secured growth has been high (8.1% average annual growth) due to the County's strong overall economy and healthy real estate market. This growth rate was expected to continue into Fiscal Years 2004-05 and 2005-06, however, the State of California's Fiscal Year 2004-05 Budget shifted $27.5 million of County property taxes to schools in each of these 2 years. Property taxes for fiscal year 2004-2005 are expected to fall $1.2 million or 0.3% below fiscal year 2003-2004 actuals.

- Vehicle License Fee (VLF) revenue. Beginning in Fiscal Year 2004-05, the County's share of VLF general purpose revenue was eliminated and replaced with money shifted from the County's Educational Revenue Augmentation Fund (ERAF). (The ERAF fund was established by state law in Fiscal Year 1992-93 to capture prescribed amounts of property tax to be shifted from local governmental agencies to local schools.) As noted above, this funding arrangement resulted from the State of California's FY 2004-05 budget actions and the signing of SB 1099. More specifically, the passage of SB 1099 made the following changes to the previous laws: eliminated the current VLF "offset" mechanism and permanently set the VLF rate at 0.65% as of January 1, 2005, eliminated VLF "backfill" payments along with the "trigger" provision in current law, replaced VLF backfill payments to cities and counties with property tax revenues shifted back from ERAF via a new VLF Property Tax Compensation Fund to be established by each county, established initial allocations for 2004-05 to each city and each county from the VLF Property Tax Compensation Fund, and provided for allocations in 2005-06 to be calculated based on a formula that takes into account adjusted actual allocations for Fiscal Year 2004-05 and the increase in gross taxable assessed value within each city or each county. This VLF/ERAF swap of funds follows State action during Fiscal Year 2003-04 to suspend VLF backfill payments during the first three months of that year. By August 2006 (Fiscal Year 2006-07), the State is required to make a one-time payment to counties and cities to make up for that suspension. The "loan" amount to be repaid to the County of San Diego is $60.0 million.

- Sales tax ($15.5 million and 2.4% of general purpose revenues) has been more sensitive to the slowdown. The Fiscal Year 2004-05 budgeted amount reflects a reduction from Fiscal Year 2003-04, but it is due to a reclassification of about one-fourth of the sales tax revenue ($5.15 million in FY 2004-05) to "property taxes in lieu of sales tax" to comply with the State's "triple flip" legislation approved in Fiscal Year 2003-04. More specifically, effective July 1, 2004, provisions of AB7 X1, one of the 2003-04 State budget bills referred to as the "triple flip", took effect. It enabled the State to redirect one-quarter cent of the local sales and use tax to the State to repay up to $15 billion in bonds authorized by Proposition 57 (March 2004) to help the State refinance its past debt. In turn, lost revenues are replaced on a dollar-for-dollar basis with countywide property tax revenues shifted back from the Educational Revenue Augmentation Fund (ERAF). Retail sales remain relatively strong in the unincorporated area with a before-triple-flip-adjustment sales tax growth of $0.6 million (3.0%) over the Fiscal Year 2003-04 Operational Plan in Fiscal Year 2004-05. Actual sales tax revenue for 2003-04 totaled $20.5 million.

- The real property transfer tax makes up about 2.7% of general purpose revenues. It is based on the dollar value of property sales and has been favorably impacted by the active real estate markets in the current environment of low interest rates. This revenue, too, was budgeted conservatively at 38% below fiscal year 2003-2004 actuals, but 5.9% above the fiscal year 2003-2004 budgeted level.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the County's finances and to demonstrate the County's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact the Auditor and Controller's Office, County of San Diego, located at 1600 Pacific Highway, San Diego, California 92101.

Basic Financial Statements

STATEMENT OF NET ASSETS
June 30, 2004
(In Thousands)

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	First 5 Commission
ASSETS				
Current assets:				
Equity in pooled cash and investments	$ 728,287	69,877	798,164	165,229
Cash with fiscal agent	17,386		17,386	
Collections in transit	9,069	659	9,728	
Imprest cash	518	2	520	
Investments	18,786		18,786	
Receivables, net	386,439	1,387	387,826	7,478
Taxes receivable, net	34,488		34,488	
Internal balances	(9,106)	9,106		
Inventory of materials and supplies	9,476		9,476	
Deferred charges	1,792		1,792	
Deposits with others	1,494		1,494	
Prepaid items	1,295		1,295	26
Restricted assets:				
Cash with fiscal agent	59,134		59,134	
Investments	27,300		27,300	
Total current assets	1,286,358	81,031	1,367,389	172,733
Noncurrent assets:				
Restricted assets:				
Investments	339,922		339,922	
Investments	24,885		24,885	
Deferred charges	26,999		26,999	
Capital assets:				
Land, construction and contracts in progress	437,196	26,193	463,389	
Other capital assets, net of depreciation	2,243,374	55,745	2,299,119	
Total noncurrent assets	3,072,376	81,938	3,154,314	
Total assets	4,358,734	162,969	4,521,703	172,733
LIABILITIES				
Current liabilities:				
Accounts payable	88,704	1,038	89,742	3,211
Accrued payroll	61,688	270	61,958	
Accrued interest	20,943		20,943	
Deferred revenue	60,301	280	60,581	
Current portion of long-term obligations	109,819	201	110,020	
Total current liabilities	341,455	1,789	343,244	3,211
Noncurrent liabilities:				
Noncurrent portion of long-term obligations	2,191,358	3,337	2,194,695	
Total liabilities	2,532,813	5,126	2,537,939	3,211
NET ASSETS				
Invested in capital assets, net of related debt	2,324,806	78,485	2,403,291	
Restricted for:				
Capital projects	6,249		6,249	
Debt service	77,640		77,640	
Inactive landfill closure	23,170		23,170	
Other purposes	62,924		62,924	169,522
Unrestricted	(668,868)	79,358	(589,510)	
Total net assets	$ 1,825,921	157,843	1,983,764	169,522

The notes to the basic financial statements are an integral part of this statement

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2004
(In Thousands)

		Program Revenues		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	$ 234,759	93,143	7,353	832
Public protection	1,173,532	206,679	196,444	18,662
Public ways and facilities	160,344	22,536	49,480	31,322
Public assistance	1,052,911	6,245	855,723	
Health and sanitation	564,796	84,650	228,254	250
Recreational and cultural	26,493	6,141	990	14,021
Education	31,722	2,567	839	2,270
Interest expense	91,897			
Total governmental activities	3,336,454	421,961	1,339,083	67,357
Business-type activities:				
Sanitation Districts	15,828	15,765		683
Other Enterprise Funds	11,378	12,181	4,153	856
Total business-type activities	27,206	27,946	4,153	1,539
Total primary government	3,363,660	449,907	1,343,236	68,896
Component unit:				
First 5 Commission	29,760		41,063	
Total component unit	$ 29,760		41,063	

General revenues:
Taxes:
Property taxes
Franchise taxes
Contributions from State
State allocation of sales tax & vehicle license fees
Interest
Transfers
Total general revenues and transfers
Change in net assets
Net assets - beginning (Component Unit restated)
Net assets - ending

(Cont)

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2004
(In Thousands)

(Cont)

Functions/Programs	Net (Expense) Revenue and Changes in Net Assets: Primary Government – Governmental Activities	Business-Type Activities	Total	Component Unit – First 5 Commission
Primary government:				
Governmental activities:				
General government	(133,431)		(133,431)	
Public protection	(751,747)		(751,747)	
Public ways and facilities	(57,006)		(57,006)	
Public assistance	(190,943)		(190,943)	
Health and sanitation	(251,642)		(251,642)	
Recreational and cultural	(5,341)		(5,341)	
Education	(26,046)		(26,046)	
Interest expense	(91,897)		(91,897)	
Total governmental activities	(1,508,053)		(1,508,053)	
Business-type activities:				
Sanitation Districts		620	620	
Other Enterprise Funds		5,812	5,812	
Total business-type activities		6,432	6,432	
Total primary government	(1,508,053)	6,432	(1,501,621)	
Component Unit:				
First 5 Commission				11,303
Total component unit				11,303
General revenues:				
Taxes:				
Property taxes	$ 496,917		496,917	
Franchise taxes	4,200		4,200	
Contributions from State				
State allocation of sales tax & vehicle license fees	625,577		625,577	
Interest	18,452	417	18,869	651
Transfers	673	(673)		
Total general revenues and transfers	1,145,819	(256)	1,145,563	651
Change in net assets	(362,234)	6,176	(356,058)	11,954
Net assets - beginning (Component Unit restated)	2,188,155	151,667	2,339,822	157,568
Net assets - ending	$ 1,825,921	157,843	1,983,764	169,522

The notes to the basic financial statements are an integral part of this statement

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2004
(In Thousands)

	General Fund	Tobacco Securitization Special Revenue Fund	Tobacco Securitization Joint Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
ASSETS AND OTHER DEBITS					
Equity in pooled cash and investments	$ 310,870	245		254,074	565,189
Cash with fiscal agent	10,090			7,296	17,386
Collections in transit	7,334			1,517	8,851
Imprest cash	299			17	316
Investments	2			43,669	43,671
Taxes receivable, net	34,488				34,488
Receivables, net	218,662	902	392	121,563	341,519
Due from other funds	178,321	6		13,468	191,795
Advances to other funds	948			120	1,068
Inventory of materials and supplies	6,941			1,672	8,613
Deposits with others				1,494	1,494
Prepaid items	10			1,285	1,295
Restricted assets:					
Cash with fiscal agent			53,099	6,035	59,134
Investments		352,910		14,312	367,222
Total assets	767,965	354,063	53,491	466,522	1,642,041
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	57,300			15,031	72,331
Accrued payroll	57,152			3,013	60,165
Due to other funds	24,744	7,336		83,036	115,116
Advances from other funds				11,113	11,113
Deferred revenue	77,769			11,384	89,153
Total liabilities	216,965	7,336		123,577	347,878
Fund balances:					
Reserved for encumbrances	84,031			30,427	114,458
Reserved for notes receivable and advances	7,555			32,583	40,138
Reserved for deposits with others				311	311
Reserved for landfill closure	16,170			7,000	23,170
Reserved for inventory of materials and supplies	6,941			1,672	8,613
Reserved for debt service			39,966	38,054	78,020
Reserved for other purposes	98,595		13,525	45,362	157,482
Unreserved:					
Designated for subsequent years' expenditures	122,334			786	123,120
Designated for landfill postclosure and inactive landfill maintenance				76,263	76,263
Undesignated	215,374	346,727			562,101
Unreserved, reported in nonmajor:					
Special revenue funds				99,623	99,623
Capital projects funds				10,864	10,864
Total fund balances	551,000	346,727	53,491	342,945	1,294,163
Total liabilities and fund balances	$ 767,965	354,063	53,491	466,522	1,642,041

The notes to the basic financial statements are an integral part of this statement

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS
June 30, 2004
(In Thousands)

Total fund balances-governmental funds	$	1,294,163
Costs of issuances are reported as expenditures in governmental funds and thus have the effect of reducing fund balance because current financial resources have been used. In the government-wide statements however, bond issuance costs are reported as a deferred charge and amortized over the life of the bond issue.		28,791
When capital assets (land, buildings, equipment, infrastructure) that are to be used in governmental activities are purchased or constructed, the costs of those assets are reported as expenditures in governmental funds. However, the statement of net assets includes those capital assets among the assets of the County as a whole.		2,581,998
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.		(20,929)
Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (for example, receivables) are offset by deferred revenues in the governmental funds and thus are not included in fund balance.		28,895
Long-term liabilities applicable to the County's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, current and long-term, are recorded in the statement of net assets.		(2,199,258)
Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individuals funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.		112,261
Net assets of governmental activities	$	1,825,921

The notes to the basic financial statements are an integral part of this statement

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2004
(In Thousands)

	General Fund	Tobacco Securitization Special Revenue Fund	Tobacco Securitization Joint Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	$ 457,062			40,116	497,178
Licenses, permits and franchises	31,233			11,019	42,252
Fines, forfeitures and penalties	40,363			6,132	46,495
Revenue from use of money and property	12,721	2,536	2,041	8,569	25,867
Aid from other governmental agencies:					
State	649,829			551,449	1,201,278
Federal	588,815			112,242	701,057
Other	57,442			12,418	69,860
Charges for current services	246,381			31,256	277,637
Other revenue	32,058		29,961	3,894	65,913
Total revenues	2,115,904	2,536	32,002	777,095	2,927,537
Expenditures:					
Current:					
General	207,600		131	8,452	216,183
Public protection	1,172,110			44,166	1,216,276
Public ways and facilities	23,983			91,443	115,426
Health and sanitation	552,035			10,622	562,657
Public assistance	948,165			105,380	1,053,545
Education	5,798			25,510	31,308
Recreational and cultural	23,709			993	24,702
Capital outlay				54,958	54,958
Debt service:					
Principal			8,930	60,909	69,839
Interest	5,776		24,830	61,897	92,503
Bond issuance costs				4,095	4,095
Total expenditures	2,939,176		33,891	468,425	3,441,492
Excess (deficiency) of revenues over (under) expenditures	(823,272)	2,536	(1,889)	308,670	(513,955)
Other financing sources (uses):					
Sale of capital assets	7			4,037	4,044
Long term debt proceeds	454,113			66	454,179
Transfers in	483,333			292,834	776,167
Transfers (out)	(162,035)	(24,083)		(591,062)	(777,180)
Total other financing sources (uses)	775,418	(24,083)		(294,125)	457,210
Net change in fund balances	(47,854)	(21,547)	(1,889)	14,545	(56,745)
Fund balances - beginning of year	598,661	368,274	55,380	328,472	1,350,787
Increase (decrease) in:					
Reserve for inventory of materials and supplies	193			(72)	121
Fund balances - end of year	$ 551,000	346,727	53,491	342,945	1,294,163

The notes to the basic financial statements are an integral part of this statement

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2004
(In Thousands)

Net change in fund balances-total governmental funds	$	(56,745)
Governmental funds accrue property tax revenue, which is deemed collectible within sixty days. However, in the statement of activities the total amount estimated to ultimately be collected is accrued.		(261)
Adjustment for reserve for inventory of materials and supplies.		121
Long-term revenues are not available as current resources, and therefore are not reported as revenue in the governmental funds.		(864)
The proceeds from the sale of capital assets are reported as other financing sources in the governmental funds.		(4,044)
The book value of the sale of capital assets is removed from the capital assets account in the statement of net assets and offset against the sales proceeds resulting in a "loss on sale of fixed assets" recorded as an expense in the statement of activities. Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over the estimated useful lives and reported as depreciation expense. This is the amount by which asset acquisition and donations exceeded depreciation in the current period.		19,527
Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The adjustments for internal service funds "close" those funds by charging additional amounts to participating governmental activities to completely cover the internal service fund's costs for the year.		(3,602)
Repayment of bond principal and other long term obligations are reported as expenditures in governmental funds and thus has the effect of reducing fund balance because current financial resources have been used. For the County as a whole however, the principal and other payments for liabilities reduce the liabilities in the statement of net assets and do not result in an expense in the statement of activities. The County's long term obligations include bonds, loans and notes payable, capital leases, accumulated unpaid employee leave balances, arbitrage rebate, and closure and postclosure costs for the San Marcos landfill. The County's long term debt was reduced by these payments, principal payments to bondhoders, and the adjustment to the San Marcos landfill closure and postclosure liability.		127,418
Bond issue costs are expended in the governmental funds when paid, and are capitalized and amortized in the statement of activities. This is the amount by which current year bond issue costs exceed amortization expense in the current period.		2,082
Interest expense in the statement of activities differs from the amount reported in governmental funds because additional interest was calculated for bonds and notes payable and amortization of capitalized bond premiums, discounts and deferred amount of refunded debt that are expended in the governmental funds in the year paid.		627
Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the government-wide statements however, issuing debt increases long-term liabilities in the statement of net assets and does not effect the statement of activities.		(454,179)
Liabilities for other long-term obligations are not accrued in governmental funds, but rather are recognized as expenditures when due.		7,686
Change in net assets of governmental activities	$	(362,234)

The notes to the basic financial statements are an integral part of this statement

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2004
(In Thousands)

	Business-Type Activities Enterprise Funds			(Cont) Governmental Activities - Internal Service Funds
	Sanitation Districts	Other Enterprise Funds	Total	
ASSETS				
Current assets:				
Equity in pooled cash and investments	$ 64,303	5,574	69,877	163,098
Collections in transit	3	656	659	218
Imprest cash		2	2	202
Accounts and notes receivable	15	1,097	1,112	2,994
Due from other funds	280	1,537	1,817	19,731
Advances to other funds	135	9,412	9,547	757
Inventory of materials and supplies				863
Total current assets	64,736	18,278	83,014	187,863
Capital assets:				
Land	1,069	9,608	10,677	
Construction and contracts in progress	5,063	10,453	15,516	47,053
Buildings and equipment	2,182	36,323	38,505	103,431
Infrastructure	63,746		63,746	
Less accumulated depreciation	(27,054)	(19,452)	(46,506)	(51,912)
Total noncurrent assets	45,006	36,932	81,938	98,572
Total assets	109,742	55,210	164,952	286,435
LIABILITIES				
Current liabilities:				
Accounts payable	695	343	1,038	16,373
Accrued payroll		270	270	1,523
Accrued interest				14
Due to other funds	1,462	1,263	2,725	53,301
Claims and judgments				31,168
Advances from other funds	259		259	
Compensated absences		34	34	215
Deferred revenue		280	280	43
Bonds, notes and loans payable		167	167	115
Total current liabilities	2,416	2,357	4,773	102,752
Noncurrent liabilities:				
Compensated absences		311	311	1,937
Claims and judgments				66,621
Bonds, notes and loans payable	195	2,831	3,026	1,863
Total long-term liabilities	195	3,142	3,337	70,421
Total liabilities	2,611	5,499	8,110	173,173
NET ASSETS				
Invested in capital assets, net of related debt	44,552	33,933	78,485	98,572
Unrestricted	62,579	15,778	78,357	14,690
Total net assets	$ 107,131	49,711	156,842	113,262

Some amounts reported for business-type activities in the statement of net assets are different because certain internal service fund assets and liabilities are included with business-type activities.	1,001
Net assets of business-type activities	$ 157,843

The notes to the basic financial statements are an integral part of this statement

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS PROPRIETARY FUNDS For the Year Ended June 30, 2004 (In Thousands)

(Cont)

	Business-Type Activities Enterprise Funds			Governmental Activities - Internal Service Funds
	Sanitation Districts	Other Enterprise Funds	Total	
OPERATING REVENUES				
Charges for services	$ 15,765	12,181	27,946	267,932
Miscellaneous				1,367
Total operating revenues	15,765	12,181	27,946	269,299
OPERATING EXPENSES				
Salaries		5,685	5,685	31,788
Repairs and maintenance	3,466	412	3,878	23,218
Equipment rental		662	662	1,024
Sewage processing	9,701		9,701	
Contracted services		2,316	2,316	127,262
Depreciation	1,290	791	2,081	9,869
Utilities		129	129	20,058
Cost of material				18,794
Claims and judgments				29,096
Fuel				5,980
Other operating expenses	1,353	574	1,927	8,400
Total operating expenses	15,810	10,569	26,379	275,489
Operating income (loss)	(45)	1,612	1,567	(6,190)
NONOPERATING REVENUES (EXPENSES)				
Investment income	357	60	417	157
Grants		4,153	4,153	43
Interest expense	(18)	(177)	(195)	(24)
Loss on disposal of equipment				(528)
Other non operating expenses		(1,714)	(1,714)	(134)
Total nonoperating revenues (expenses)	339	2,322	2,661	(486)
Income (Loss) before contributions and transfers	294	3,934	4,228	(6,676)
Capital contributions	683	856	1,539	2,470
Transfers in		24	24	8,341
Transfers (out)		(697)	(697)	(6,655)
Change in net assets	977	4,117	5,094	(2,520)
Total net assets - beginning	106,154	45,594		115,782
Total net assets - ending	$ 107,131	49,711		113,262

Some amounts reported for business-type activities in the statement of activities are different because the net revenue (expense) of certain internal service funds are reported with business-type activities.	1,082
Change in net assets of business-type activities	$ 6,176

The notes to the basic financial statements are an integral part of this statement

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30,2004
(In Thousands)

(Cont)

	Business-Type Activities Enterprise Funds			Governmental Activities-Internal Service Funds
	Sanitation Districts	Other Enterprise Funds	Total	
Cash flows from operating activities:				
Cash received from customers	$ 15,748	11,531	27,279	269,161
Cash received from other funds	89	415	504	
Other cash receipts		1,440	1,440	
Other payments				(244)
Cash payments to suppliers	(10,590)	(5,387)	(15,977)	(213,982)
Cash payments to employees		(3,463)	(3,463)	(31,416)
Cash payments to other funds	(2,640)	(564)	(3,204)	(27,007)
Net cash provided by (used for) operating activities	2,607	3,972	6,579	(3,488)
Cash flows from non-capital financing activities:				
Grants		4,408	4,408	43
Other				
Loan proceeds				1,977
Transfers from other funds		24	24	7,716
Transfers to other funds		(697)	(697)	(6,028)
Advances from other funds				171
Advances to other funds		225	225	
Net cash provided by(used for)non-capital financing activities		3,960	3,960	3,879
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(3,824)	(8,713)	(12,537)	(11,009)
Capital contributions	683	856	1,539	2,286
Proceeds from sale of equipment				615
Principal paid on long-term debt	(19)	(155)	(174)	(860)
Interest paid on long-term debt	(18)	(177)	(195)	(24)
Net cash used for capital and related financing activities	(3,178)	(8,189)	(11,367)	(8,992)
Cash flows from investing activities:				
Interest	389	63	452	205
Net decrease in cash and cash equivalents	(182)	(194)	(376)	(12,275)
Cash and cash equivalents - beginning of year	64,488	6,426	70,914	171,914
Cash and cash equivalents - end of year	64,306	6,232	70,538	159,639
Reconciliation of operating income (loss):				
Operating income (loss)	(45)	1,612	1,567	(6,190)
Other non operating revenues		1,440	1,440	
Adjustments to reconcile:				
Inc (dec) in compensated absences		47	47	(79)
Inc in accrued payroll		92	92	495
Inc (dec) in due to other funds	747	817	1,564	(2,277)
Inc (dec) in accounts payable	543	(844)	(301)	(2,088)
Dec in claims and judgments				(2,949)
Inc in accounts receivable	(15)	(174)	(189)	(58)
Dec in inventory				260
Inc (dec) in deferred revenue		268	268	(4,372)
Dec (inc) in due from other funds	87	(77)	10	3,901
Depreciation	1,290	791	2,081	9,869
Net cash provided by (used for) operating activities	2,607	3,972	6,579	(3,488)
Non-cash investing and capital financing activities:				
Accrued interest income	33	3	36	93
Capital acquisitions included in accounts payable	451	168	619	1,346
Total non-cash investing and capital financing activities	$ 484	171	655	1,439

The notes to the basic financial statements are an integral part of this statement

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2004
(In Thousands)

	Pension Trust Fund	Investment Trust Fund	Agency Funds
ASSETS			
Equity in pooled cash and investments	$ 9,359	2,396,036	427,739
Cash with fiscal agent	59,593		13,349
Collections in transit		6,161	14,814
Imprest cash		30	4
Investments:			
Domestic equity securities	856,367		
Cash, cash equivalents, and securities for domestic equity swaps and futures	1,304,716		
International equity securities	1,188,889		
Cash, cash equivalents, and securities for international futures	60,222		
U.S. government obligations	293,002		
Domestic corporate bonds	442,670		
Short-term notes	48,350		
International bonds	517,703		
Cash for bond futures	206,426		
Securities lending collateral	375,485		
Alternative equity and real estate	501,238		
Taxes receivable			262,145
Accounts receivable			15,016
Interest and other receivables	60,751		
Due from other funds	9,336	14,170	5,342
Capital assets, net	2,981		
Total assets	5,937,088	2,416,397	738,409
LIABILITIES			
Accounts payable	52,899		
Due to other funds	65	9,154	61,830
Obligations under securities lending	375,485		
Due to other governments			615,478
Amount due for commercial paper notes			61,101
Total liabilities	428,449	9,154	738,409
NET ASSETS			
Held in trust for pension benefits and other purposes	$ 5,508,639	2,407,243	

The notes to the basic financial statements are an integral part of this statement

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
For the Year Ended June 30, 2004
(In Thousands)

	Pension Trust Fund	Investment Trust Fund
ADDITIONS		
Contributions:		
Employer	$ 700,583	
Plan members	33,609	
Additions to pooled investments		19,420,538
Total contributions	734,192	19,420,538
Investment earnings:		
Net increase (decrease) in fair value of investments	862,931	(17,777)
Interest income	67,222	43,383
Securities lending income	5,050	
Other income	56,912	
Total investment earnings	992,115	25,606
Less investment expenses	51,891	
Less securities lending expenses	3,753	
Net investment earnings	936,471	25,606
Total additions	1,670,663	19,446,144
DEDUCTIONS		
Benefits	256,429	
Refunds of contributions	1,536	
Administrative expenses	7,407	
Deductions from pooled investments		19,527,229
Total deductions	265,372	19,527,229
Changes in net assets	1,405,291	(81,085)
Net assets - beginning of year	4,103,348	2,488,328
Net assets - end of year	$ 5,508,639	2,407,243

The notes to the basic financial statements are an integral part of this statement

NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2004
(Amounts Expressed In Thousands Unless Otherwise Noted)

(1) Summary of Significant Accounting Policies

The following is a summary of the more significant accounting policies:

(A) The Financial Reporting Entity
The County of San Diego is a political subdivision of the State of California (the "State") charged with general governmental powers and governed by an elected five-member Board of Supervisors (the "Board"). The County provides a full range of general government services. As required by generally accepted accounting principles, these financial statements present the County of San Diego (the primary government) and its component units, entities for which the County is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the County's operations, and the County Board of Supervisors is typically their governing body. They are reported as if they were part of the primary government, because they benefit the County exclusively. A discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the County. This unit is discretely presented because its Board is not substantively the same as the County's Board and it does not provide services entirely or almost entirely to the County. Management applied the criteria of Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," to determine whether the following component units should be reported as blended or discretely presented component units. Additionally, management researched the requirements under GASB Statement No. 39. "Determining Whether Certain Organizations Are Component Units" pertaining to legally separate, tax-exempt entities, and found that there are no legally separate, tax-exempt entities that meet the criteria of GASB 39. GASB 39 became effective for fiscal years beginning after June 15, 2003.

(B) Blended Component Units
County Service Districts – These special districts were established to provide authorized services such as road, park, lighting maintenance, fire protection or ambulance service to specific areas in the county. They are financed by ad valorem property taxes in the area benefited or by special assessments levied on specific properties. These funds are included as special revenue funds.

Flood Control District – This district was established to account for revenues and expenditures related to providing flood control in the County. It is financed primarily by ad valorem property taxes and federal grants. This fund is included as a special revenue fund.

Lighting Maintenance District - This district was established to provide street and road lighting services to specified areas of the County. Revenue sources include ad valorem taxes, benefit fees, state funding and charges to property owners. This fund is included as a special revenue fund.

Air Pollution Control District – This district was established to provide for control of air pollution from motor vehicles and other sources in order to attain health-based air quality standards. Revenue sources include license and permit fees, fines, state and federal funds, charges to property owners and vehicle registration fees. This fund is included as a special revenue fund.

San Diego County Housing Authority – This authority accounts for revenues and expenditures related to providing decent housing in a suitable environment for individuals who cannot afford standard private housing. Contracts with the U.S. Department of Housing and Urban Development provide the major funding sources. This fund is included as a special revenue fund.

Sanitation Districts – These districts are used to account for the activities of all individual sanitation districts governed by the County Board of Supervisors. They are included as enterprise funds.

San Diego County Redevelopment Agency – This agency was established to provide a method of eliminating slums and blighted areas, improving housing, expanding employment opportunities, and providing an environment for the social, economic and psychological growth, and well-being of all citizens of the County. This agency is included in the debt service and capital projects funds.

NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2004
(Amounts Expressed In Thousands Unless Otherwise Noted)

San Diego County Capital Asset Leasing Corporation (SANCAL) – This corporation was established to finance the acquisition of County buildings and equipment. It is a nonprofit corporation governed by a five-member Board of Directors, which is appointed by the County Board of Supervisors. This corporation is included in the special revenue, debt service and capital projects funds.

San Diego County Employees' Retirement Association (SDCERA) – This association is a legally separate entity reported as if it were part of the primary government, because it's operations primarily benefit the County by providing pensions for retired County employees. This fund is included in the fiduciary funds.

County of San Diego In-Home Supportive Services Public Authority (IHSS) – This authority was established to serve as the employer of record for the IHSS program which provides in-home assistance to low-income aged, blind, and disabled individuals enabling them to remain safely in their own homes and avoid institutionalization. The IHSS program is state-mandated. This fund is included in the special revenue funds.

The San Diego County Tobacco Asset Securitization Corporation ("Corporation") – This is a separate legal nonprofit public benefit corporation created under the California Nonprofit Public Benefit Corporation Law. It was established to purchase tobacco settlement payments allocated to the County from the State of California, pursuant to the Master Settlement Agreement concluded on November 23, 1998 between the major tobacco companies and 46 states (including California), the District of Columbia and four U.S. Territories (see Note 5H for additional information regarding the sale by the County to the Corporation of all right, title and interest of the County to such monies). The Corporation is governed by the Board of Directors consisting of three members, two of which are employees of the County of San Diego and one independent director who is not an employee of the County.

The Tobacco Securitization Joint Powers Authority of Southern California (TSJPA) – This is a separate legal public entity created by a Joint Exercise of Powers Agreement by and between the County of San Diego and the County of Sacramento pursuant to the Government Code of the State of California. The authority's purpose is to finance a loan via the sale of bonds to the San Diego County Tobacco Asset Securitization Corporation which in turn uses the loan proceeds to purchase the County's future tobacco settlement revenues under the Purchase and Sale Agreement. The Authority is administered by the Board of Directors consisting of three members, two members which are appointed by the County of San Diego Board of Supervisors and the third member is appointed by the Sacramento County Board of Supervisors.

Separate financial statements for the individual blended component units described above may be obtained by contacting the County Chief Financial Officer/Auditor and Controller's Office, County of San Diego, located at 1600 Pacific Highway, Room 166, San Diego, California 92101.

(C) Discretely Presented Component Unit

First 5 Commission of San Diego (Commission) – The Commission was established by the County as a separate legal entity to administer the County's share of tobacco taxes levied by the State pursuant to Proposition 10. Its purpose is to develop, adopt, promote and implement early childhood development programs in the County. The Commission is a separate legal entity, and the County appoints a voting majority of the Commission's board. The County is able to impose its will on the Commission, due to its ability to change the appointees. The two boards (County and Commission) are not substantively the same and the Commission does not provide services entirely or almost entirely to the County, but to the citizens instead.

Separate financial statements for the discretely presented component unit listed above can be obtained by contacting the Auditor and Controller's Office, County of San Diego, located at 1600 Pacific Highway, Room 166, San Diego, California 92101.

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(D) Government-Wide and Fund Financial Statements
The basic government-wide financial statements, consisting of the statement of net assets and the statement of activities, report information on all of the non-fiduciary activities of the primary government and its component units. Whenever possible, the effect of interfund activity has been removed from these statements.

Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent, on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component unit for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate fund financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The focus of governmental and proprietary fund financial statements is on major funds. The financial information of each major fund is shown in a separate column in the fund financial statements, with the data for all nonmajor governmental funds aggregated into one single column on the Governmental Funds Balance Sheet, and with data for all nonmajor enterprise funds aggregated into one single column on the Statement of Net Assets Proprietary Funds.

The County reports the following major governmental funds:

> The General Fund is the County's primary operating fund. It accounts for all financial resources of the County except those required to be accounted for in another fund. Revenues are primarily derived from taxes; licenses, permits and franchises; fines, forfeitures and penalties; use of money and property; intergovernmental revenues; charges for services; and other revenues. Expenditures are expended for functions of general government, public protection, public ways and facilities, health and sanitation, public assistance, education, and recreational and cultural. They also include capital outlay, and debt service.
>
> The Tobacco Securitization Special Revenue Fund accounts for tobacco settlement payments allocated to the County from the State of California, pursuant to the Master Settlement Agreement concluded on November 23, 1998 between the major tobacco companies and 46 states (including California), the District of Columbia and four U.S. Territories. (See Note 5H for additional information regarding the sale by the County to the Corporation of all right, title and interest of the County to such monies)
>
> The Tobacco Securitization Joint Special Revenue Fund accounts for the transactions of the San Diego County Tobacco Asset Securitization Corporation and Tobacco Securitization Joint Powers Authority, two component units, that are blended into the County's financial statements.

The County reports the following major proprietary (enterprise) fund:

> The Sanitation Districts Funds are used to account for the activities of all individual sanitation districts and sewer maintenance district governed by the County Board of Supervisors. Due to the quantitative nature of the Airport and the Wastewater Management Enterprise Funds, the county has elected to not report them as major funds beginning fiscal year 2003-04. Therefore, these funds have been included in the Other Enterprise Funds column in the basic financial statements.

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Additionally, the County reports the following fund types:

Internal Service Funds account for the financing of public works and communications equipment; the financing of materials and supplies (purchasing); for start up services for new and existing county service districts; for the County's uninsured risk management activities; the financing of fleet services; for facilities management activities; for the financing of information technology services; and for the financing of clothing and personal sundry items for persons institutionalized at various county facilities. Additionally, mail services are included within the facilities function, and printing and record storage services are included in the purchasing function. The goods or services provided by one County department to other County departments are on a cost reimbursement basis.

The Pension Trust Fund is under the control of the Board of Retirement. The fund accumulates employer and employee contributions and earnings from the fund's investments. Disbursements are made from the fund for retirements, disability and death benefits and refunds. This fund includes all assets of the retirement system.

The Investment Trust Fund accounts for the external portion of the County Treasurer's investment pool. This fund consists of school districts, special districts and funds held for other governments.

The Agency Funds maintain assets held in an agent capacity for other governments, organizations and individuals. These assets do not support the County's programs or services. Any portion of the Agency Funds' assets held at fiscal year end for other County funds, are reported in those funds rather than in the Agency Funds.

(E) Measurement focus, basis of accounting, and financial statement presentation
The government-wide financial statements are reported using the flow of economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met. For purposes of not overstating the true costs and program revenues reported for the various functions, interfund activities (e.g. interfund transfers and interfund reimbursements) have been eliminated from the government-wide statement of activities. Exceptions to the general rule are interfund services provided and used between functions, such as charges for auditing and accounting fees between the general government function and various other functions of the primary government. Elimination of these interfund activities would distort the direct costs and program revenues reported for the various functions concerned. Additionally, only the interfund transfers between governmental and business-type activities are reported in the statement of activities.

Fund equity for the proprietary funds (i.e., total net assets) is segregated into restricted and unrestricted. Proprietary fund type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in total net assets. Financial Accounting Standards Board Statements issued after November 30, 1989, are not applied in reporting enterprise fund operations and business type activities.

For proprietary funds, operating activities generally relate to transactions and events reported as components of operating income in the statement of revenues, expenses, and changes in fund net assets. Operating revenues include charges for providing goods and services; operating expenses include salaries and benefits, utilities, and payments to vendors and suppliers. In addition, nonoperating activities are used for any revenues or expenses that cannot be properly classified as components of operating income. Examples of nonoperating activities include interest revenue, and gain/loss on disposal of assets.

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Governmental fund types are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when susceptible to accrual (i.e., both measurable and available). Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The County considers this to be one year for all items except property taxes, for which the County considers the period of availability to be sixty days. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the individual programs are used as guidance. Revenues that are accrued include property taxes, sales tax, interest, and state and federal grants and subventions. Expenditures are generally recognized when the related fund liability is incurred. Exceptions to this general rule include: (1) principal and interest on long-term debt which is recognized when due; (2) accumulated unpaid vacation, sick leave, and other employee benefits which are reported in the period due and payable rather than in the period earned by employees; and, (3) claims and judgments.

When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first, and then unrestricted resources as they are needed.

(F) Property Taxes
Taxes are levied on July 1 each fiscal year on taxable real and personal property, which is situated in the County as of the preceding January 1 lien date. However, upon a change in ownership of property or completion of new construction, State law requires an accelerated recognition and taxation of changes in real property assessed valuation. For assessment and collection purposes, property is classified either as "secured" or "unsecured" and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing locally assessed and State assessed property secured by a lien, which is sufficient, in the opinion of the assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll."

Property taxes on the secured roll are payable in two installments, due November 1 and February 1. If unpaid, such taxes become delinquent after 5:00 p.m. on December 10 and April 10, respectively, and a ten percent penalty attaches. Property on the secured roll with unpaid delinquent taxes is declared tax-defaulted after 5:00 p.m. on June 30th. Such property may thereafter be redeemed by payment of the delinquent taxes, the ten percent delinquency penalty, a ten dollar cost, a fifteen dollar per parcel redemption fee (from which the State receives five dollars), and redemption penalty of one and one-half percent per month starting July 1 and continuing until the end of redemption collectively, the "Redemption Amount". If taxes remain unpaid after five years on the default roll, the property becomes subject to tax sale by the County Treasurer-Tax Collector.

Property taxes on the unsecured roll are due as of the January 1 lien date and become delinquent, if unpaid, on August 31. A ten percent penalty attaches to delinquent taxes on property on the unsecured roll and an additional penalty of one and one-half percent per month begins to accrue on November 1.

As established by the Teeter Plan, the Auditor and Controller allocates to the County and other agencies 100% of the secured property taxes billed but not yet collected by the County; in return, as the delinquent property taxes and associated penalties and interest are collected, the County retains such amounts in an Agency Fund. To the extent the Agency Fund tax loss reserves are higher than required, transfers may be made to benefit the County's General Fund. The balance of the tax loss reserve as of June 30, 2004 was $7 million, which is included in the General Fund for reporting purposes.

(G) Indirect Costs
Expenditures and expenses for functional activities include County indirect costs that are allocated to benefiting departments under the County's Fiscal Year 2003-2004 Countywide Cost Allocation Plan which was prepared in accordance with the Federal Office of Management and Budget Circular A-87.

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(H) Assets, liabilities, and net assets or equity
Cash and Investments
Investments in County funds are stated at fair value. Securities that are traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Cash and short-term investments in the Pension Trust Fund consist of cash and securities with fiscal agents and deposits held in a pooled account with the County and are reported at cost, which approximates fair value. Short-term investments consist of cash held in money market accounts and securities readily convertible to cash. The fair value of Pension Trust Fund real estate investments has been determined by appraisals performed by independent real estate advisors approximately every three years. Investments of the Pension Trust Fund that do not have an established market are reported at estimated fair value.

For purposes of reporting cash flows, all amounts reported as "Equity in pooled cash and investments," "Collections in transit," and "Imprest cash" are considered cash equivalents. Pooled cash and investment carrying amounts represent monies deposited in the County Treasurer's cash management pool and are similar in nature to demand deposits (i.e., funds may be deposited and withdrawn at any time without prior notice or penalty), with original maturities of three months or less. For "Cash with fiscal agent" information see Note 4A.

Inventories
Inventories, which consist of expendable supplies, are stated at average cost. They are accounted for as expenditures at the time of purchase and reported in the balance sheet of the General Fund and the Other Governmental Funds as an asset with an offsetting reserve. Inventory held by the Road Fund, a special revenue fund, and the proprietary fund types is carried at average cost and is expended when consumed.

Capital Assets
Capital assets are defined as assets of a long-term character that are intended to be held or used in operations, such as land, buildings and improvements, equipment, and infrastructure. Infrastructure assets include roads, bridges, flood channels, street lights, signals, and sewers.

Capital assets are recorded at historical cost if purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Capital assets with an original unit cost equal to or greater than the County's capitalization threshold shown in the table below are reported in the applicable governmental or business-type activities columns in the government-wide financial statements.

Structures and improvements	$50
Infrastructure (permanent road divisions, county service areas, sanitation and special districts)	$25
Infrastructure (all others)	$50
Equipment	$ 5

Depreciation is charged over the capital assets' estimated useful lives using the straight-line method for proprietary and governmental fund types. Governmental fund type depreciation is only shown in the statement of activities. Proprietary fund type depreciation is shown both in the fund statements and the statement of activities. The estimated useful lives are as follows:

Structures and improvements	50 years
Infrastructure	10-50 years
Equipment	5-20 years

Bond Issuance Costs, Premiums, Discounts and Deferred Amount On Refunding
In the government-wide financial statements and in the proprietary fund type financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Bond premiums and discounts, issuance costs, as well as the deferred amount on refunding, are deferred

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and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium, discount or deferred amount on refunding. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental funds recognize bond premiums and discounts as other financing sources and uses, respectively, and bond issuance costs as debt service expenditures. Amounts on refunding are not deferred, but are recognized in the year of occurrence as other financing sources and uses. Issuance costs, whether or not withheld from the actual debt proceeds received are reported as debt service expenditures.

Long-Term Liabilities
Long-term liabilities expected to be financed with resources from governmental and proprietary fund types are accounted for in the statement of net assets. Long-term liabilities of all proprietary fund types are also accounted for in the respective funds.

Amounts recorded as accumulated leave benefits include an amount representing salary-related payments such as the employer's share of Social Security and Medicare taxes associated with payments made for such compensated absences. Accumulated leave benefits including vacation, sick leave, and compensatory time worked in the amount of approximately $77.5 million for the governmental fund types as of June 30, 2004, is recorded in the statement of net assets. These amounts would not be expected to be liquidated from expendable available financial resources but would be expected to be liquidated in future years as employees elect to use these benefits as prescribed by Civil Service rules and regulations.

Reservation of Fund Balances
In the fund statements, reserves represent those portions of fund balance not available for appropriation or legally segregated for a specific future use.

Net Assets Invested in Capital Assets, Net of Related Debt
This amount is derived by subtracting the outstanding debts incurred by the County to buy or construct capital assets shown in the statement of net assets. Capital assets cannot readily be sold and converted to cash.

Restricted of Net Assets
Restricted net assets arise when restrictions on the use of net assets are externally imposed by a creditor, (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.

Use of Estimates
The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results could differ from those estimates. Where significant estimates have been made in preparing these financial statements, they are described in the applicable footnotes.

(2) Stewardship, Compliance and Accountability

(A) Fund Deficits
The following funds have an accumulated deficit at June 30, 2004:

Capital Projects Fund:		
San Diego County Redevelopment Agency (SDCRA)	$	5,210
Internal Service Funds:		
Risk Financing	$	17,530
Facilities Management	$	1,488

The deficit within the SDCRA fund is due to the construction of various capital projects including streets, utilities, sidewalks, traffic signals and other improvements. This deficit will be reduced in

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future years upon the receipt of the incremental tax revenues. The deficit in the Risk Financing fund is due to prior years' recognition of liabilities based on actuarial studies. This year's deficit represents a reduction of $6.4 million over that of the prior fiscal year. The County intends to reduce the deficit by continuing to focus resources on injury prevention via a Countywide education and safety training program. The County anticipates this program will reduce the growth in the liability for new injury claims, and therefore the deficit, by 5% to 10% per year. The deficit within the Facilities Management fund is due to the use of loan proceeds for expenses incurred for maintenance cost for energy conservation equipment. This deficit will be reduced as fees are collected in future years.

(3) Reconciliation of Government-Wide and Fund Financial Statements

(A) Explanation of certain differences between the governmental funds balance sheet and the government-wide statement of net assets

Total fund balance of the County governmental funds, $1,294,163, differs from net assets of governmental activities, $1,825,921 reported in the statement of net assets. The difference primarily results from the long-term economic resources measurement focus and the accrual basis of accounting in the statement of net assets versus the current financial resources measurement focus and modified accrual basis of accounting in the governmental fund balance sheets.

Balance Sheet/Statement of Net Assets

	Total Governmental Funds	Long-term Assets, Liabilities (1)	Internal Service Funds (2)	Reclassi-fications and Eliminations (3)	Statement of Net Assets Totals
ASSETS					
Cash and cash equivalents	$ 574,356		163,518		737,874
Cash with fiscal agent	76,520				76,520
Investments	410,893				410,893
Taxes receivable, net	34,488				34,488
Internal balances				(9,106)	(9,106)
Accounts and notes receivable	341,519		2,994	41,926	386,439
Due from other funds	191,795		19,731	(211,526)	
Advances to other funds	1,068		757	(1,825)	
Inventory of materials and supplies	8,613		863		9,476
Deferred charges and other assets	2,789	28,791			31,580
Capital assets		2,581,998	98,572		2,680,570
Total assets	1,642,041	2,610,789	286,435	(180,531)	4,358,734
LIABILITIES					
Accounts payable	72,331		16,373		88,704
Accrued payroll	60,165		1,523		61,688
Accrued interest		20,929	14		20,943
Due to other funds	115,116		54,302	(169,418)	
Advances from other funds	11,113			(11,113)	
Deferred credits and other liabilities	89,153	(28,895)	43		60,301
Long-term liabilities		2,199,258	101,919		2,301,177
Total liabilities	347,878	2,191,292	174,174	(180,531)	2,532,813
FUND BALANCE/NET ASSETS					
Total fund balance/net assets	1,294,163	419,497	112,261		1,825,921
Total liabilities and fund net assets	$ 1,642,041	2,610,789	286,435	(180,531)	4,358,734

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(1) Costs of issuances are reported as expenditures in governmental funds and thus have the effect of reducing fund balance because current financial resources have been used. In the government-wide statements however, bond issuance costs are reported as a deferred charge and amortized over the life of the bond issue.

Net cost of issuance	$	28,791
Total deferred charges and other assets	$	28,791

When capital assets (land, buildings, equipment, infrastructure) that are to be used in governmental activities are purchased or constructed, the costs of those assets are reported as expenditures in governmental funds. However, the statement of net assets includes those capital assets among the assets of the County as a whole.

Cost of capital assets	$	3,538,279
Accumulated depreciation		(956,281)
Net capital assets	$	2,581,998

Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

Total accrued interest	$	(20,929)

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (for example, receivables) are offset by deferred revenues in the governmental funds and thus are not included in fund balance.

Adjustment of deferred revenue	$	28,895
Total deferred credits and other liabilities	$	28,895

Long-term liabilities applicable to the County's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities; including bond premiums, discounts, and the cost of refunded debt that are recognized as revenue (premiums) and expenditures in governmental funds in the year of sale. However, all liabilities, current and long-term, are reported in the statement of net assets. Bond premiums, discounts and deferred costs on refunded debt are recorded as additions (premiums) and reductions of a liability respectively and amortized over the life of the corresponding bonds. Balances at June 30, 2004 were:

Bonds, notes and loans payable	$	(2,061,720)
Unamortized issuance Premium		(555)
Unamortized issuance Discount		9,565
Unamortized deferred amount on refunding		14,072
Capital leases		(37,346)
Arbitrage		(979)
Compensated absences		(75,385)
Landfill closure and postclosure - San Marcos Landfill		(46,910)
Total long-term liabilities	$	(2,199,258)

(2) Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.

Costs	$	112,261

(3) The government-wide financial statements are designed to minimize the duplicative effects of transactions between funds for internal activities. Therefore, due to/from and advances to/from

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balances have been eliminated on the government-wide financial statements. The net amount due between governmental and business-type activities after the eliminations are reported as internal balances in the government-wide statement of net assets. Due to/from and advances to/from transactions between governmental funds and fiduciary funds are reclassified as receivables and payables in the government-wide statement of net assets.

(B) Explanation of certain differences between the governmental funds statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The net change in fund balances for governmental funds $(56,745) differs from the change in net assets for governmental activities $(362,234) reported in the statement of activities. The differences arise primarily from the long-term economic resources measurement focus and the accrual basis of accounting in the statement of activities versus the current financial resources measurement focus and modified accrual basis of accounting in the governmental funds. The effect of the differences is illustrated in the following table.

Statement of Revenues, Expenditures, and Changes in Fund Balances/Statement of Activities

	Total Governmental Funds	Long-Term Revenues/ Expenses (4)	Capital-Related Items (5)	Internal Service Funds (6)	Long-term Debt Transactions (7)	Statement of Activities Totals
Revenues:						
Taxes	$ 497,178	(261)				496,917
Licenses, permits and franchises	42,252					42,252
Fines, forfeitures and penalties	46,495					46,495
Revenue from use of money and property	25,867			157		26,024
Aid from other governmental agencies:						
State	1,201,278					1,201,278
Federal	701,057					701,057
Other	69,860					69,860
Charges for current services	277,637	121		15,535		293,293
Other revenue	65,913	(864)	31,322			96,371
Total revenues	2,927,537	(1,004)	31,322	15,692		2,973,547
Expenditures:						
Current:						
General	216,183		4,623	17,547	(3,594)	234,759
Public protection	1,216,276		12,594	1,727	(57,065)	1,173,532
Public ways and facilities	115,426		44,826	92		160,344
Health and sanitation	562,657		2,457	553	(871)	564,796
Public assistance	1,053,545		412	676	(1,722)	1,052,911
Education	31,308		230	184		31,722
Recreational and cultural	24,702		1,611	180		26,493
Capital outlay	54,958		(54,958)			
Debt service:						
Principal	69,839				(69,839)	
Interest	92,503			21	(627)	91,897
Bond issuance costs	4,095				(4,095)	
Total expenditures	3,441,492		11,795	20,980	(137,813)	3,336,454
Other financing sources (uses):						
Sale of capital assets	4,044		(4,044)			
Proceeds of long term debt	454,179				(454,179)	
Transfers (net)	(1,013)			1,686		673
Total other financing sources (uses)	457,210		(4,044)	1,686	(454,179)	673
Net change for the year	$ (56,745)	(1,004)	15,483	(3,602)	(316,366)	(362,234)

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Explanation of differences between governmental fund operating statements and the statement of activities:

(4) Governmental funds accrue property tax revenue, which is deemed collectible within sixty days. However, in the statement of activities the total amount estimated to ultimately be collected is accrued.

Property taxes	$	(261)

Adjustment for reserve for inventory of materials and supplies.

Adjustment	$	121

Long-term revenues are not available as current resources, and therefore are not reported as revenue in the governmental funds.

Adjustment of deferred revenue	$	(864)

(5) The proceeds from the sale of capital assets are reported as other financing sources in the governmental funds.

Proceeds from sale of capital assets	$	(4,044)

The book value of the sale of capital assets is removed from the capital assets account in the statement of net assets and offset against the sales proceeds resulting in a "loss on sale of fixed assets" recorded as an expense in the statement of activities. Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over the estimated useful lives and reported as depreciation expense. This is the amount by which asset acquisition and donations exceeded depreciation in the current period.

Loss on Disposal of assets	$	(21,326)
Capital outlay		91,294
Depreciation expense		(81,763)
Subtotal		(11,795)
Donated infrastructure - roads		31,322
Difference	$	19,527

(6) Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The adjustments for internal service funds "close" those funds by charging additional amounts to participating governmental activities to completely cover the internal service fund's costs for the year.

Adjustments	$	(3,602)

(7) Repayment of bond principal and other long-term obligations are reported as expenditures in governmental funds and thus has the effect of reducing fund balance because current financial resources have been used. For the County as a whole however, the principal and other payments for liabilities reduce the liabilities in the statement of net assets and do not result in an expense in the statement of activities. The County's long-term obligations include bonds, loans and notes payable, capital leases, accumulated unpaid employee leave balances, arbitrage rebate, and

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closure and postclosure costs for the San Marcos landfill. The County's long-term debt was reduced by these payments, principal payments to bondholders, and the adjustment to the San Marcos Landfill closure and postclosure liability.

Other miscellaneous debt additions- general function	$	(1,047)
Other miscellaneous debt additions - public protection function		(1,271)
Other miscellaneous debt reductions - general function		5,807
Change in accounting estimate for closure and postclosure costs public Protection function - San Marcos Landfill		54,090
Principal payments made		69,839
Total repayment of long-term obligations	$	127,418

Bond issuance costs are expensed in governmental funds when paid, and are capitalized and amortized over the life of the corresponding bonds for purposes of the statement of activities.

Bond issuance costs	$	4,095
Amortization of bond issuance costs - general function		(2,013)
Difference	$	2,082

Interest expense in the statement of activities differs from the amount reported in governmental funds because additional interest was calculated for bonds and notes payable and amortization of capitalized bond premiums, discounts and deferred amount of refunded debt that are expended in the governmental funds in the year paid.

Accrued interest	$	4,549
Amortization of bond premium		78
Amortization of bond discounts		(4,000)
Total additional interest	$	627

Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the government-wide statements however, issuing debt increases long-term liabilities in the statement of net assets and does not affect the statement of activities. Bond proceeds were received from:

Pension obligation bond proceeds	$	(454,113)
Singing hills capital loan proceeds		(66)
Total long-term debt proceeds	$	(454,179)

Liabilities for long-term debt are not accrued in governmental funds, but rather are recognized as expenditures when due.

General function	$	847
Public protection function		4,246
Public assistance function		1,722
Health & sanitation function		871
Pension obligation liability	$	7,686

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(4) Detailed Notes on all Funds

(A) Equity in Pooled Cash and Investments, Cash, Investments, and Obligations under Reverse Repurchase Agreements

The County maintains a cash and investment pool that is available for use by the County as well as other agencies for which the County Treasury is the depository. The San Diego County Treasurer issues a separate annual financial report on the County Investment Pool. This report may be obtained by writing to the San Diego County Treasurer, Room 152, County Administration Center, 1600 Pacific Highway, San Diego, California, 92101 or by calling (619) 531-4743. Copies are also available on the internet at www.sdtreastax.com.

Each fund type's portion of this pool is displayed on the balance sheet as "Equity in pooled cash and investments." Interest earned on the pooled deposits is accrued in a pooled interest apportionment agency fund and is allocated based on the average daily cash balances of the participating funds. All participating funds share earnings and losses proportionately. State law permits interest income related to certain funds to be considered as income of the General Fund of the County. Such interest has been recorded as revenue in the General Fund.

SDCERA cash, cash equivalents and securities for swaps and futures consist of money market securities and collective short-term investments with original maturities of three months or less.

SDCERA utilizes various financial instruments, such as equity swap agreements and stock and bond futures contracts in order to synthetically create exposure to the equity and bond markets and allows SDCERA to build portfolios with performance characteristics very similar to benchmarks and to manage allocation of risk. The Board of Retirement has adopted a policy whereby cash, cash equivalents, and securities in amounts at least equal to the exposures resulting from these agreements are segregated and identified in the accounting records as "Cash, cash equivalents, and securities for domestic equity swaps and futures and cash, cash equivalents and securities for international futures". The amounts reported reflect the fair value of the swap and futures contracts, which include cash, cash equivalents, securities and any net unrealized gains and losses associated with the contracts.

These financial instruments are intended to be equivalent to the asset they are designed to emulate. SDCERA management believes such investments offer significant advantages over the direct investment in securities, including lower transaction fees and custody costs. SDCERA's use of swaps and futures is structured such that market exposure is fundamentally equivalent to the direct cash investments. SDCERA will only execute a swap agreement with counterparties rated A or higher. The use of swap agreements exposes the Pension Trust Fund to the risk of dealing with financial counterparties and their ability to meet the terms of the contracts. However, all swaps are fully collateralized by cash at least equal to the notional value of the most recent cash reset. Allowing insufficient collateral is strictly prohibited as a trading strategy by SDCERA's investment policies.

"Cash with fiscal agent" represents amounts on deposit with trustees for the, Pension Trust Fund, Teeter Commercial Paper Notes, Tobacco Securitization Special Revenue Fund, Tobacco Securitization Joint Special Revenue Fund, Other Governmental Funds and other Fiduciary Funds. Cash with various financial institutions was $149.462 million including $59.134 million restricted cash as required by various trust agreements entered into by the County and other cash with fiscal agents totaling $90.328 million.

NOTES TO BASIC FINANCIAL STATEMENTS
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Of the $149.462 million, $1.673 million was covered by federal deposit insurance, $147.789 million was considered a collateralized custodial credit risk. Collateralized custodial credit risk is defined by GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements" as bank balances collateralized with securities held in trust by the pledging financial institution in the entity's name, (the County and San Diego Employees' Retirement Association (SDCERA), a component unit of the County). The County is also in compliance with State statutes (as referred to in GASB Statement No. 3) that require depositories having public funds on deposit to maintain a pool of securities with the agent of the depository having a market value of at least 10% in excess of the total amount of all public funds on deposit.

"Investments," represents the Tobacco Securitization Special Revenue Fund investments, Inactive Wastesite Fund investments, the Pension Trust Fund investments and stocks and bonds held for other agencies.

Deposit and investment reconciliation as reported in the basic financial statements are summarized as follows:

Deposits: At year-end the carrying amount of the County's demand deposits was $34.690 million. Of the balance $692 thousand was covered by federal deposit insurance and $33.998 million was considered a collateralized custodial credit risk as defined above.

Investments: State statutes authorize the County to invest in obligations of the U.S. Treasury, agencies and instrumentalities, commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record, bankers acceptances, repurchase and reverse repurchase agreements, medium-term notes, and negotiable certificates of deposit issued by national and state licensed or chartered banks or federal or state savings and loan associations.

Pension Trust Fund investments are authorized by the County Employees' Retirement Law of 1937 (law). This law grants exclusive control to the Board of Retirement over the investment of SDCERA's investment portfolio. The Law allows for the Board to invest, or delegate the authority to invest, the investment portfolio through the purchase, holding, or sale of any form or type of investment, financial instrument or financial transaction when prudent in the informed opinion of the Board.

Pension Trust Fund Investments are reported at fair value in the Pension Trust Fund based upon closing sale prices reported on recognized securities exchanges on the last business day of the period. For listed securities having no sales reported and for unlisted securities, fair value is based upon last reported bid prices. All purchases and sales of investments are accounted for on a trade-date basis, and dividends declared but not received are accrued on the ex-dividend date. Realized and unrealized gains or losses of securities are determined on the basis of average cost.

The County's investments are categorized below to give an indication of the level of custodial credit risk assumed by the entity at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the County or its agent in the County's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the County's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the County's name. There were no investments with a risk Category 3 at June 30, 2004.

NOTES TO BASIC FINANCIAL STATEMENTS
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		Category 1	Category 2	Fair Value
Investments categorized				
Domestic equity securities	$	674,524		674,524
Cash, cash equivalents, and securities for domestic equity swaps and futures		1,304,716		1,304,716
International equity securities		1,131,939		1,131,939
Cash, cash equivalents, and securities for international futures		60,222		60,222
Domestic corporate bonds		344,059		344,059
Cash for bond futures		206,426		206,426
International bonds		515,942		515,942
Asset backed securities		49,313		49,313
Repurchase agreements		200,000		200,000
Commercial paper		1,049,756		1,049,756
US government obligations		1,893,638		1,893,638
Negotiable certificates of deposit		669,739		669,739
Short term and corporate notes		223,582		223,582
Fixed income municipal securities			352,910	352,910
Cash received for investments held by broker dealers under securities lent by SDCERA:				
U.S. corporate floating rate		122,514		122,514
Asset back securities		23,544		23,544
Commercial paper		7,997		7,997
Bank notes		63,559		63,559
Certificate of deposit floating rate		60,087		60,087
Time deposits		15,009		15,009
Repurchase agreements		82,775		82,775
Subtotal		8,699,341	352,910	9,052,251
Investments not categorized				
Securities loaned by SDCERA for cash collateral:				
U.S. government and agency securities				26,430
International governments securities				1,761
Domestic corporate bonds				98,611
Domestic equities				181,845
International equities				56,950
Mutual funds (Open-ended)				34,400
Real estate equity				501,238
Guaranteed Investment Contracts				14,312
Total investments	$			9,967,798

Reconciliation of the Statement of Net Assets to Total Investments at June 30, 2004:

	Primary Government	Fiduciary Funds	Sub-Total	Component Unit	Total
Equity in pooled cash and investments	$ 798,164	2,833,134	3,631,298	165,229	3,796,527
Cash with fiscal agent	17,386	72,942	90,328		90,328
Restricted cash with fiscal agent	59,134		59,134		59,134
Collections in transit	9,728	20,975	30,703		30,703
Imprest cash	520	34	554		554
Investments	43,671	5,795,068	5,838,739		5,838,739
Restricted investments	367,222		367,222		367,222
Total	1,295,825	8,722,153	10,017,978	165,229	10,183,207
Less:					
Cash with fiscal agent					(90,328)
Restricted cash with fiscal agent					(59,134)
Collections in transit					(30,703)
Imprest cash					(554)
Deposits					(34,690)
Total investments	$				9,967,798

NOTES TO BASIC FINANCIAL STATEMENTS
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A total of $3.8 billion of investments is reported in the Equity in pooled cash and investments fund financial statements. Fair values and estimates of fair values are provided monthly by an independent pricing agency and such values are not supported by any guarantees on the part of the pool sponsor or the pricing agency. The County and certain school districts are mandated by state statues to participate in the County Treasurer's investment pool and represent 97 percent of the total pooled cash and investments on hand at June 30, 2004.

Securities Lending Transactions: Under the provisions of State statutes, the County Treasurer lends U.S. government obligations and SDCERA lends U.S. government obligations, domestic and international bonds, and equities to various brokers with a simultaneous agreement to return collateral for the same securities plus a fee in the future. The County's custodial bank manages the securities lending programs for the County Treasurer and receives cash and securities as collateral pledged at 102 percent of the market value of securities lent. The securities lending agent manages the securities lending program and receives securities and cash as collateral. Collateral cash is pledged at 102% and 105% of the fair value of domestic securities and non-domestic securities lent, respectively. Additional collateral has to be provided the next business day if its value falls to 100 percent or less of the market value of the securities lent. The collateral securities cannot be pledged or sold by the County Treasurer or SDCERA unless the borrower defaults. No more than 20 percent of the Treasurer's pooled investment portfolio may be lent at one time. There are no restrictions on the amount of SDCERA securities that can be lent at one time. Securities on loan at year-end are presented as unclassified in the preceding schedule of custodial credit risk and represent transactions of the SDCERA pension trust fund. At year-end, the pension trust fund has no credit risk exposure to borrowers because the amounts SDCERA owes the borrowers exceeds the amounts the borrowers owe SDCERA. The term to maturity of the loaned securities is generally not matched with the term to maturity of the investment of the cash collateral.

SDCERA's securities lending transactions as of June 30, 2004, are summarized in the following table. The Pension Trust Fund lent $385 million in securities and received collateral of $20 million and $375 million in securities and cash, respectively, from borrowers.

Securities Lent		SDCERA Securities Lent	Securities Received Value	Cash Received Value
Lent for cash collateral:				
U.S. government and agency securities	$	26,430		26,858
International governments securities		1,761		1,795
Domestic corporate fixed income securities		98,611		101,099
Domestic equities		181,845		185,850
International equities		56,950		59,883
Lent for securities collateral:				
International equities		5,378	5,905	
U.S. government securities		1,042	1,065	
International governments securities		12,953	13,228	
Total	$	384,970	20,198	375,485

SDCERA does not have the ability to pledge or sell collateral securities without a borrower default. At the end of the fiscal year, SDCERA has no credit risk exposure to borrowers because the amounts the system owes them exceed the amounts they owe the system. As with other extensions of credit, SDCERA may bear the risk of delay in recovery or of rights in the collateral should the borrower of the securities fail financially. In addition, the Bank of New York indemnifies SDCERA against all borrower default.

NOTES TO BASIC FINANCIAL STATEMENTS
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(B) Restricted Assets

Cash With Fiscal Agent
Restricted Cash with fiscal agent represents cash held in custodial accounts restricted for debt service in accordance with the provisions of bond indentures.

Investments
Restricted Investments consist of investments in the Tobacco Securitization Special Revenue Fund. The investments in the Tobacco Securitization Special Revenue Fund will be used over time to fund new and existing programs that would promote healthy lifestyles. The emphasis is on prevention and education, and is intended to reduce the abuse of alcohol, tobacco and other addictive substances, improve mental health services, significantly reduce violence and abuse, reduce the incidence of chronic and infectious diseases, and provide education regarding the effects of tobacco.

(C) Capital Assets

Primary Government
Capital asset activity for the year ended June 30, 2004 was as follows:

Governmental Activities:

	Beginning Balance at July 1, 2003	Increases	Decreases	Ending Balance at June 30, 2004
Capital assets, not being depreciated:				
Land	$ 265,956	20,470	(24,316)	262,110
Construction and contracts in progress	177,693	36,833	(39,440)	175,086
Total capital assets, not being depreciated	443,649	57,303	(63,756)	437,196
Capital assets, being depreciated:				
Buildings and improvements	931,422	38,919	(364)	969,977
Equipment	163,892	12,872	(8,788)	167,976
Road network	2,012,432	61,989		2,074,421
Bridge network	38,425	768		39,193
Total capital assets, being depreciated	3,146,171	114,548	(9,152)	3,251,567
Less accumulated depreciation for:				
Buildings and improvements	(262,782)	(17,868)	39	(280,611)
Equipment	(81,285)	(14,951)	7,436	(88,800)
Road network	(569,057)	(58,080)		(627,137)
Bridge network	(10,912)	(733)		(11,645)
Total accumulated depreciation	(924,036)	(91,632)	7,475	(1,008,193)
Total capital assets, being depreciated, net	2,222,135	22,916	(1,677)	2,243,374
Governmental activities capital assets, net	$ 2,665,784	80,219	(65,433)	2,680,570

Building and infrastructure projects are recorded as construction in progress until completion. Intangible projects such as software acquisition and implementation are recorded as contracts in progress until implementation is completed.

NOTES TO BASIC FINANCIAL STATEMENTS
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Depreciation expense was charged to functions of the primary government as follows:

General government	$	4,020
Public protection		14,384
Public ways and facilities		59,157
Health and sanitation		2,380
Public assistance		369
Education		197
Recreational and cultural		1,256
Internal service funds		9,869
Total depreciation expense – governmental activities	$	91,632

Business Type Activities:

Enterprise Funds	Beginning Balance at July 1, 2003	Increases	Decreases	Ending Balance at June 30, 2004
Capital assets, not being depreciated:				
Land	$ 7,490	3,187		10,677
Construction and contracts in progress	13,817	8,392	(6,693)	15,516
Total capital assets, not being depreciated	21,307	11,579	(6,693)	26,193
Capital assets, being depreciated:				
Buildings and improvements	30,598	6,693		37,291
Equipment	1,203	11		1,214
Sewer network	63,063	683		63,746
Total capital assets, being depreciated	94,864	7,387		102,251
Less accumulated depreciation for:				
Buildings and improvements	(18,830)	(797)		(19,627)
Equipment	(782)	(66)		(848)
Sewer network	(24,803)	(1,262)	34	(26,031)
Total accumulated depreciation	(44,415)	(2,125)	34	(46,506)
Total capital assets, being depreciated, net	50,449	5,262	34	55,745
Enterprise fund capital assets, net	$ 71,756	16,841	(6,659)	81,938

(D) Leases

(1) Lease Revenue

The County leases real property to the private sector and other governmental agencies. The lease revenues for both non-cancelable and cancelable leases for the year ended June 30, 2004 were approximately $15 million. One lease extends through 2091 for a two acre parcel leased to a non-profit public benefit corporation. The future minimum lease revenue from the non-cancelable leases is as follows:

Fiscal Year	Minimum Lease Revenue
2004-2005	$ 10,811
2005-2006	10,456
2006-2007	9,752
2007-2008	9,270
2008-2009	9,038
2009-2091	155,019
Total	$ 204,346

NOTES TO BASIC FINANCIAL STATEMENTS
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(2) Lease Commitments

The County has commitments under long-term property operating lease agreements for facilities used for operations through fiscal year 2012. These leases do not meet the criteria for capitalization under FASB Statement 13. The County is the lessee under the terms of several non-cancelable operating leases for real property used to house certain County facilities. The combined rental cost for which the County is obligated under these leases is as follows:

Fiscal Year	Minimum Lease Payments
2005	$ 9,801
2006	8,338
2007	7,085
2008	3,553
2009	2,975
2010-2012	5,811
Total	$ 37,563

Total rental expense for all real property operating leases, including short-term cancelable leases for the year ended June 30, 2004, was approximately $26.2 million.

In addition to real property leases, the County has also entered into long-term operating leases for personal property, a large portion of which represents data processing and duplicating equipment. Many of these leases are subject to annual adjustment based upon negotiations. Management expects that in the normal course of business, leases that expire will be renewed or replaced by other leases. Total rental expense for these operating leases for the year ended June 30, 2004, was $7.4 million.

Certain buildings and equipment are being leased under capital leases as defined in FASB Statement 13. The present value of the minimum lease obligation has been capitalized in the statement of net assets and is reflected as a liability in that statement. The County assumes responsibility for all maintenance, repair, and structural modifications under the terms of the lease agreements.

Future minimum lease payments under capital leases consisted of the following at June 30, 2004:

Fiscal Year	Minimum Lease Payments
2005	4,462
2006	4,348
2007	3,785
2008	3,454
2009	3,068
2010-2014	15,323
2015-2019	15,290
2020-2023	3,060
Total minimum lease payments	52,790
Less: amount representing interest	(15,444)
Net lease payments	$ 37,346

NOTES TO BASIC FINANCIAL STATEMENTS
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The book value of capital lease property at June 30, 2004 consisted of the following:

Capital Lease Property	Net Book Value June 30, 2004
Land	$ 2,221
Buildings and Improvements	36,729
Total	$ 38,950

(E) Short-Term Obligations

The County's short-term borrowing program consists of its annual Tax and Revenue Anticipation Notes (Notes), which fund the County's annual operating cash flow needs, and the issuance of Teeter Commercial Paper, which fund payments to public agencies their full share of property taxes levied. The County bears the risk of loss on delinquent property taxes that go unpaid; however, it also benefits from the penalties associated with these delinquent property taxes when they are paid. Short-term borrowing activity during the year ended June 30, 2004 was as follows:

	Beginning Balance at July 1, 2003	Issued	Redeemed	Ending Balance at June 30, 2004
Tax and Revenue Anticipation Notes	$135,000	255,000	390,000	
Teeter B-1 Tax - Exempt Principal	39,200	34,100	24,200	49,100
Teeter B-2 Taxable Principal	22,536	12,001	22,536	12,001
Total Teeter	$ 61,736	46,101	46,736	61,101

On July 3, 2003, the County of San Diego issued $255 million of Notes with an interest and principal maturity date of June 30, 2004. The Notes carry an interest rate of 1.75% and a yield of 0.90%.

In 1995 the County of San Diego Board of Supervisors approved the Master Teeter Resolution providing the terms and conditions of its teeter plan obligations. Pursuant to this resolution, the County is able to issue additional Series B Teeter Commercial Paper each fiscal year. On May 18, 2004, the Board of Supervisors adopted a resolution for the additional Series B borrowings to finance the uncollected property taxes and assessments attributable to the fiscal year ended June 30, 2004. The Teeter commercial paper shall mature not more than 270 days after date of issuance and is not subject to redemption prior to maturity. The payment of principal and interest on each series is supported by an irrevocable direct pay letter of credit that will expire on June 22, 2007.

(F) General Long-Term Obligations

Outstanding general long-term obligations at June 30, 2004 consist of certificates of participation, capital lease obligations, third party financing leases, and other long-term obligations. All obligations listed carry a fixed interest rate. The range listed in the table below represents the interest rate on the serial, term bonds or in the case of third party financing leases it is the range of rates for the various leases. A component of the 2002 Taxable Pension Obligation Bonds, Series B1, and the 2004 Taxable Pension Obligation Bonds, Series B, carry variable interest rates and are subject to market fluctuations. The variable interest rate used for the 2002 Series B1 was 1.129% at June 30, 2004. The assumed variable rate used in the 2004 Taxable Pension Obligation Bonds is 1.369% which represents the one month London Interbank Offered Rate (LIBOR) at June 30, 2004. The maximum interest rate on these bonds shall not exceed 17% per annum. Outstanding long-term obligations at June 30, 2004 were as follows:

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(1) Governmental Activities

General Long-Term Obligations

Obligation	Interest Rate	Final Maturity Date	Original Amount	Amount Outstanding
San Diego County Capital Asset Leasing Corporation (SANCAL):				
1993 Certificates of participation issued May, 1993	2.50 - 5.625%	2012	$ 203,400	86,725
1996 Certificates of participation issued May, 1996	4.30 - 5.50%	2018	52,230	33,740
1996 Certificates of participation issued December, 1996	4.00 - 6.00%	2019	37,690	31,910
1997 Certificates of participation issued July, 1997	4.00 - 5.42%	2025	80,675	69,755
1998 Certificates of participation issued January, 1999	4.00 - 4.94%	2022	73,115	57,730
1999 Certificates of participation issued September, 1999	3.60 - 4.75%	2009	15,010	9,750
2000 Certificates of participation issued May, 2000	4.50 - 5.125%	2010	51,620	33,985
2002 Certificates of participation issued March 2002	2.00 - 5.00%	2011	26,060	20,770
Total certificates of participation			539,800	344,365
Capitalized Leases:				
San Diego Regional Building Authority Lease beginning September 2001	2.15 - 5.25%	2019	36,960	33,960
Third party financing leases with various beginning dates from August, 1997 to the present	4.24 - 8.00%	2004 - 2014	8,705	3,386
Total capitalized leases			45,665	37,346
Other long-term obligations:				
Capital loans:				
United States Department of Agriculture	1.00%	2028	4,486	3,483
California Bank & Trust	7.75 - 8.75%	2007-2008	502	289
California Energy Commission	4.00%	2014	1,978	1,978
Taxable Pension Obligation Bonds:				
1994 Series A	4.7 - 6.6%	2007	430,430	77,425
2002 Series A, B & C	3.88 - 6.125%	2032	737,340	737,340
2004 Series A, B & C	3.28 - 5.86%	2024	454,113	454,113
Redevelopment Agency Revenue Bonds	4.75 - 6.75%	2020	5,100	4,400
San Diego County Tobacco Asset Securitization Corporation	4.00 - 6.00%	2043	466,840	440,305
Unamortized issuance premium			765	555
Unamortized issuance discount			(11,244)	(9,565)
Unamortized deferred amount on refunding			(21,108)	(14,072)
Arbitrage rebate				979
Compensated absences				77,537
Claims and judgments				97,789
Landfill closure and postclosure				46,910
Total other long-term obligations			2,069,202	1,919,466
Total governmental activities			$ 2,654,667	2,301,177

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The certificates of participation (COPs) of the SANCAL non-profit corporation are secured by annual base rental lease payments payable primarily by the County General Fund for use of the facilities constructed or equipment purchased from the proceeds. There are also encumbrances on the facilities constructed or purchased with the proceeds of the SANCAL. The capital leases between the County and SANCAL have been eliminated for financial reporting purposes and the related assets and long-term obligation (e.g. certificates of participation of SANCAL) are reported as San Diego County's assets and debt, respectively.

Also, the County, in compliance with the Tax Reform Act of 1986 and subsequent U.S. Treasury Regulations, has performed arbitrage rebate calculations to determine probable amounts due to the Federal government. An estimate of the probable arbitrage rebate in the amount of $979 thousand has been included in the statement of net assets.

(2) Business-Type Activities

Obligation	Interest Rate	Final Maturity Date	Original Amount	Amount Outstanding
Sanitation Districts				
Long-term contract payable -				
Spring Valley			$ 5,639	195
Other enterprise funds				
Capital loan:				
Department of Transportation loan				
Beginning March 2001	5.63%	2019	3,584	2,998
Compensated absences				345
Total business-type activities			$ 9,223	3,538

In previous fiscal years, this capital loan was treated as a debt of the government-wide governmental activities statement of net assets, and the debt service payments were made from the Special Aviation Debt Service Fund. In fiscal year 2003-2004, this debt was determined to be a debt of the Airport Enterprise Fund (a non-major business-type activities fund), and is included in the table above as part of the Other enterprise funds. The debt service payments are now accounted for in the Airport Enterprise Fund.

(3) Long-term obligation activity for the year ended June 30, 2004 was as follows:

The following liabilities presented in the governmental activities table below, have been liquidated in prior years in the following governmental funds:

Liability	Fund(s) Used to Liquidate in Prior Years
Arbitrage rebate	Debt Service Fund – Nonprofit Corporation
Claims and judgments	Internal Service Fund - Risk Financing
Compensated absences	General Fund; Special Revenue Funds – County Library, Road, Cable TV, Air Pollution; Internal Service Funds – Facilities Management, Fleet Services, Purchasing, Mail Print & Records
Landfill closure and postclosure	General Fund, Inactive Wastesites Fund

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Governmental Activities

Obligation	Beginning Balance at July 1, 2003	Additions		Reductions	Ending Balance at June 30, 2004	Amounts Due within One Year
Bonds and notes payable:						
Certificates of participation	$ 395,285			(50,920)	344,365	33,855
Redevelopment Agency	4,530			(130)	4,400	140
San Diego County Tobacco Securitization Corporation	449,235			(8,930)	440,305	2,155
Taxable pension obligation bonds	824,395	454,113		(9,630)	1,268,878	16,635
Capital and retrofit loans	7,088	2,044	*	(3,382)	5,750	345
Total bonds and notes payable, before issuance discount and premiums and deferred amount on refunding	1,680,533	456,157		(72,992)	2,063,698	53,130
Unamortized issuance premium, discount and deferred amount on refunding:						
Unamortized issuance premium	633			(78)	555	78
Unamortized issuance discount	(10,047)			482	(9,565)	(401)
Unamortized deferred amount on refunding	(17,590)			3,518	(14,072)	(3,518)
Total bonds and notes payable	1,653,529	456,157		(69,070)	2,040,616	49,289
Other liabilities:						
Capitalized leases	40,860	86	*	(3,600)	37,346	2,732
Arbitrage rebate	752	227			979	951
Claims and judgments	100,588	26,297		(29,096)	97,789	31,168
Compensated absences	75,370	2,409		(242)	77,537	7,754
Landfill closure and postclosure	101,000			(54,090)	46,910	17,925
Total other liabilities	318,570	29,019		(87,028)	260,561	60,530
Total governmental activities	$ 1,972,099	485,176		(156,098)	2,301,177	109,819

*This includes loan proceeds recorded in Internal Service Funds.

Business-Type Activities

Obligation	Beginning Balance at July 1, 2003	Additions		Reductions	Ending Balance at June 30, 2004	Amounts Due within One Year
Sanitation Districts						
Spring Valley sanitation	$ 195				195	
Other Enterprise Funds						
Capital loan		3,153		(155)	2,998	167
Compensated absences	299	46	*		345	34
Total business-type activities	$ 494	3,199		(155)	3,538	201

*Changes in compensated absences represent the net changes for fiscal year 2003-2004.
The following is a schedule of debt service requirements to maturity, for long-term bond and note obligations outstanding at June 30, 2004.

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Governmental Activities

Fiscal Year Ending June 30	Principal	Interest	Total
2005	$ 53,130	65,728	118,858
2006	59,037	85,190	144,227
2007	72,257	73,402	145,659
2008	57,195	70,057	127,252
2009	55,441	67,352	122,793
2010-2014	239,873	327,559	567,432
2015-2019	281,087	270,498	551,585
2020-2024	413,057	191,681	604,738
2025-2029	299,161	145,515	444,676
2030-2034	266,855	106.902	373,757
2035-2039	96,035	66,001	162,036
2040-2043	170,570	31,312	201,882
Subtotal	2,063,698	1,501,197	3,564,895
Add:			
Unamortized issuance Premium	555		
Less:			
Unamortized issuance discount	(9,565)		
Unamortized deferred amount on refunding	(14,072)		
Total	$ 2,040,616		

The above table does not reflect the County's exposure to the interest rate swap on the 2002 Taxable Pension Obligation Bonds. See Interest Rate Swap disclosure below for further information.

Business-Type Activities

Fiscal Year Ending June 30	Principal	Interest	Total
2005	$ 167	169	336
2006	180	159	339
2007	192	149	341
2008	205	138	343
2009	217	127	344
2010-2014	1,271	437	1,708
2015-2017	766	80	846
Total	$ 2,998	1,259	4,257

Interest Rate Swap

<u>Objective of the Interest Rate Swap:</u>
In order to manage interest rate risk and lower the County's borrowing cost in its 2002 Taxable Pension Obligation Bonds, the County entered into an interest rate swap on September 17, 2002 with two counterparties. The swap converts the variable interest rates on several subseries of the 2002 Taxable Pension Obligation Bonds to a single long-term fixed rate that was lower than the "natural" fixed rate available at the time of the swap. The interest rate swap with Citibank N.A. (Citibank) and Morgan Stanley Capital Services (Morgan Stanley), (together the "counterparties") is governed by the International Swaps and Derivatives Association, Inc. Master Agreement (the Agreement) and a

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Confirmation. In fiscal year 2002-2003, the County issued $737.340 million of Pension Obligation Bonds of which $505.125 million of the Series B Bonds are Auction Rate Securities. Within the Series B Auction Rate Securities there are the following subseries: $100 million of Series B-1, $135.025 million of Series B-2, $135.05 million Series of B-3 and $135.05 million of Series B-4 bonds. The County swapped Series B-2, B-3 and B-4 totaling $405.125 million of the Auction Rate Securities for a contractually agreed fixed interest rate of 5.30%. Of the $405.125 million our exposure with Citibank is $263 million and our exposure with Morgan Stanley is $142 million notional.

Terms:
County payments are due to bondholders semi-annually on August 15 and February 15, beginning February 15, 2003. The effective date of the swap was September 17, 2002 and the initial six-month calculation period began February 15, 2003. The Agreement and the Confirmation terminate on February 15, 2031 and the series B-2, B-3 and B-4 bonds mature on August 15, 2030. The County did not receive any upfront payments but pursuant to the terms of the Agreement, each August 15 and February 15 the County will receive an amount from each of the counterparties based on the notional amount of principal outstanding for the past six months at an interest rate of one month London Interbank Offered Rate (LIBOR) and each February 15 the County will pay the counterparties the scheduled 5.30% of the notional amount outstanding. The February 15 payment due from the counterparties will be netted against the 5.30% County payment. The notional amount of the swap will begin to decline in fiscal year 2016-2017 in direct proportion to the repayment of the bonds.

The obligations of the County to make payments to the counterparties under this Agreement constitute general obligations of the County, payable from taxes, income, revenue cash receipts and other moneys of the County legally available therefore in the General Fund. The payments due to the counterparties and the obligations of the County under this Agreement do not constitute any kind of indebtedness of the County as defined under and/or proscribed by any constitution, charter, law, rule, regulation, government code, constituent or governing instrument, resolution, guideline, ordinance, order, writ, judgment decree, or ruling.

As of June 30, 2004, the swap created a synthetic fixed rate for the bonds as follows:

Interest Rate Swap:	Terms	Rates
Fixed Rate to Counterparty	Fixed	5.30%
Average Variable Rate from Counterparty (July 1, 2003 to June, 30, 2004)	1 month LIBOR	(1.122)%
Net Interest Rate Swap Payments		4.178%
Average Auction Rate bond coupon payments (July 1, 2003 to June, 30, 2004)		1.129%
Synthetic Interest Rate on Bonds		5.307%

Fair Value:
As of June 30, 2004 the swaps had a positive fair value of $8.5 million. The mid-market or indicative unwind valuation was derived from a proprietary model using the zero coupon method. This model takes into consideration estimates about relevant present and future market consideration as well as the size and liquidity of the position and any related actual or potential hedging transaction.

The primary risks associated with this transaction are: Credit Risk, Termination Risk, and Basis Risk.

Credit risk:
The swap's fair value represented the County's credit exposure to the counterparties as of June 30, 2004. Should the counterparties to this transaction fail to perform according to the terms of the swap contract as of June 30, 2004, the County would be exposed to a possible loss equivalent to the swap's $8.5 million fair value. Citibank is rated Aa1/AA/AA+ by Moody's, Standard & Poors and Fitch, respectively and Morgan Stanley is rated Aa3/A+/AA- by Moody's, Standard & Poor's and Fitch, respectively. Pursuant to the Agreement if the rating issued by Standard & Poors or Moody's of the senior unsecured debt obligations of the counterparties is suspended or withdrawn or falls below "A-"

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in the case of Standard & Poors or below "A3" in the case of Moody's, collateral is to be delivered to a third party.

Termination risk:
The Agreement includes standard termination events such as failure to pay, bankruptcy and early termination. For this transaction, the swap and bond maturities match and carries an Interest Rate Swap Insurance Policy by MBIA Insurance Corporation (MBIA). If the Agreement is terminated for any of the conditions in the agreement, and at the time of the termination the swap has a negative fair value, the County would be liable to the counterparties for a payment equal to the swap's fair value. The swap can be terminated by the County for market value at any time. As of June 30, 2004 the fair value of the swap is a positive $8.5 million. Value is predominantly tied to changes in the market for the fixed swap rate for the remaining swap term.

Basis risk:
The County's exposure to basis risk arises when the one-month LIBOR rate index received from the counterparties may be less than the applicable auction rate that is being paid to the bondholders, that is the cash flow being received by the counterparty is not equal to the cash flow being paid to the variable rate bondholder. By using one month LIBOR, the County's objective is to mitigate the affect of the differential between the swap index and the bondholder variable rate. For fiscal year 2003-2004, the differential was $65 thousand.

Fiscal Year Ending June 30	Principal	Interest (1.129%)	Interest Rates Swaps, Net (4.178%)	Total
2005		4,574	16,926	21,500
2006		4,574	16,926	21,500
2007		4,574	16,926	21,500
2008		4,574	16,926	21,500
2009		4,574	16,926	21,500
2010-2014		22,870	84,630	107,500
2015-2019	$ 58,025	21,911	81,084	161,020
2020-2024	121,125	16,328	60,423	197,876
2025-2029	160,275	8,435	31,215	199,925
2030-2033	65,700	685	2,538	68,923
Total	$ 405,125	93,099	344,520	842,744

Prior Year Defeasance of Debt

In prior years, the County defeased certain lease revenue bonds, certificates of participation (COPs) or taxable pension obligation bonds by placing the proceeds of the original issue plus additional County contributions in an irrevocable trust to provide for all future debt service payments on the old obligations. Accordingly, the trust account assets and the liability for the defeased obligations are not included in the County's financial statements. At June 30, 2004, $178 million of bonds or COPs outstanding are considered defeased.

Landfill Site Closure and Postclosure Care Costs

State laws and regulations require the placement of final covers on all landfill sites that stopped accepting solid waste after October 9, 1991 and the performance of certain maintenance and monitoring functions at these sites for a minimum of 30 years after closure. Closure and postclosure care costs are paid near or after the date a landfill stops accepting waste. The San Marcos Landfill is the sole waste disposal site owned by the County that is subject to these regulations. It was operational and accepted solid waste from 1979 until March 11, 1997. The formal closure of this

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landfill is expected to span from July 2004 through December 2006. Once closure is complete, post closure maintenance will begin.

The County is required by GASB Statement No. 18, *"Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs"*, to report the projected closure and postclosure care costs as of each balance sheet date. The projected landfill closure and postclosure care liability at June 30, 2004 for the San Marcos Landfill was $46.91 million. This estimated amount is based on what it would cost to perform all closure and postclosure care in calendar year 2004 dollars and is subject to change as a result of such factors including but not limited to: inflation; deflation; advancements in technology; and amendments to laws and regulations.

The basis for the foregoing projection differs from the County's projected liability of $101 million at June 30, 2003, which included estimated maintenance costs applicable to waste and burn sites that stopped accepting solid waste prior to 1985 (pre-1985 inactive sites) and is reported as a change in accounting estimate. Accordingly, the government-wide statement of activities, public protection function expense reflects a reduction of $54.09 million.

In addition to the above, state regulations require that landfill closure and postclosure maintenance costs be fully funded at the time of closure, unless a landfill owner/operator can demonstrate financial responsibility towards these activities by using other approved financial assurance alternatives. A pledge of revenue is one of various alternatives allowed to fund estimated postclosure costs. Under this alternative, the Board of Supervisors, on February 3, 1998, approved Minute Order No. 5 "Postclosure Maintenance Funding for the San Marcos Landfill", wherein the County entered into a pledge of revenue agreement with the California Integrated Waste Management Board (CIWMB). Pursuant to Resolution No. 98-24, adopted under Minute Order No. 5, the Board exacted that the amount of pledged revenue shall be equal to $790 thousand per year for the 30 year period of postclosure maintenance commencing upon completion of the final closure of the San Marcos Landfill. The pledged amount is a promise of existing funds rather than future revenues and may increase or decrease to match any adjustment to identified cost estimates that are mutually agreed to by the County and the CIWMB.

As of June 30, 2004, $23.17 million of the Net Assets of the Government-Wide Statement of Net Assets has been restricted for closure costs of the San Marcos Landfill. Based on environmental site assessments and information currently available, County management believes it also has sufficient reserves available to fund costs associated with the previously discussed pre-1985 inactive sites.

Regulations governing solid waste management are promulgated by government agencies on the federal and state levels. These regulations address the design, construction, operation, maintenance, closure and postclosure maintenance of various types of facilities; acceptable and prohibited waste types; and inspection, permitting, environmental monitoring and solid waste recycling requirements. Regulations at both the state and federal levels could impose retroactive liability, particularly with respect to cleanup activities relating to any landfill site ever operated by the County, whether or not owned by the County. Thus, the County has potential liability with respect to every landfill ever owned, operated, contracted to be operated, or into which the County disposed waste. Compliance with these regulations may be costly, and, as more stringent standards are developed to protect the environment, these costs could increase.

(G) Special Assessment Debt

The County Treasurer-Tax Collector acts as an agent for property owners and bondholders in collecting and forwarding special assessment monies. The County is not obligated for to pay any special assessment bonds. Special assessment debt is solely the obligation of various separate governmental agencies. The amount of the 4-S Ranch special assessment debt outstanding for which the County is a fiduciary is $15.2 million at June 30, 2004.

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(H) Receivables and Payables

(1) Receivables, net at June 30, 2004, were as follows:

Receivables	Accounts	Interest	Due From Other Gov't Agencies	Notes	Loans	Other *	Total Receivables	Allowance For Doubtful Accounts	Receivables Net
Governmental activities:									
General Fund	$ 1,202		196,200		21,301	38,994	257,697	(41)	257,656
Tobacco Securitization Special Revenue Fund		902				6	908		908
Tobacco Securitization Joint Special Revenue Fund		392					392		392
Other governmental funds	39,297	103	81,163	1,000		1,432	122,995		122,995
Internal service funds	417		2,577			1,494	4,488		4,488
Total governmental activities	40,916	1,397	279,940	1,000	21,301	41,926	386,480	(41)	386,439
Business-type activities:									
Sanitation Districts			15			270	285		285
Other Enterprise Funds	420		677			5	1,102		1,102
Total business-type activities	420		692			275	1,387		1,387
Component Unit:									
First 5 Commission		630	6,848				7,478		7,478
Total component unit	$	630	6,848				7,478		7,478

* Represents reclassifications of amounts due from fiduciary funds at government-wide level.

(2) Payables at June 30, 2004, were as follows:

Payables	Vendors	Due to Other Gov't Agencies	Other	Total Payables
Governmental Activities:				
General Fund	$ 42,478	14,717	105	57,300
Other governmental funds	9,433	1,254	4,344	15,031
Internal service funds	14,427	213	1,733	16,373
Total governmental activities	66,338	16,184	6,182	88,704
Business-type activities:				
Sanitation Districts	695			695
Other Enterprise Funds	343			343
Total business-type activities	1,038			1,038
Component Unit:				
First 5 Commission	3,211			3,211
Total component unit	$ 3,211			3,211

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(I) Interfund Receivables, Payables and Transfers

(1) Transfers in/transfers out at June 30, 2004 were as follows:

From	To	Amount
General Fund	Nonmajor Governmental Funds	$ 156,510
	Internal Service Funds	5,525
Total General Fund		162,035
Tobacco Securitization Special Revenue Fund	General Fund	24,083
Nonmajor Governmental Funds	General Fund	458,372
	Nonmajor Governmental Funds	132,666
	Nonmajor Enterprise Funds	24
Total Nonmajor Governmental Funds		591,062
Nonmajor Enterprise Funds	Nonmajor Governmental Funds	530
	Internal Service Funds	167
Total Nonmajor Enterprise Funds		697
Internal Service Funds	General Fund	878
	Nonmajor Governmental Funds	3,128
	Internal Service Funds	2,649
Total Internal Service Funds		6,655
Total		$ 784,532

The purpose of these transfers was primarily for reimbursement of project costs, lease payments, initiation fees and replacement costs.

(2) Advances to/from at June 30, 2004 were as follows:

	Advances To Other Funds	Advances From Other Funds
General Fund	$ 948	
Nonmajor Governmental Funds	120	11,113
Sanitation	135	259
Nonmajor Enterprise Funds	9,412	
Internal Service Funds	757	
Total	$ 11,372	11,372

The purpose of these advances was primarily for the establishment of loans that are not due within one year. These loans are for the planning, undertaking, construction or operation of redevelopment projects within the County. These advances to/from other funds have been eliminated in the government-wide financial statements, except for "internal balances" that are reflected between the governmental and business-type statements as of June 30, 2004.

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(3) Due to/due- from other funds at June 30, 2004 were as follows:

Receivable Fund	Payable Fund	Amount
General fund	Tobacco Securitization Special Revenue Fund	$ 7,336
	Nonmajor Governmental Funds	79,018
	Sanitation Districts	13
	Nonmajor Enterprise Funds	46
	Internal Service Funds	51,730
	Fiduciary Funds	40,178
Total General Fund		178,321
Tobacco Securitization Special Revenue Fund	Fiduciary Funds	6
Nonmajor Governmental Funds	General Fund	6,872
	Nonmajor Governmental Funds	2,001
	Sanitation Districts	204
	Nonmajor Enterprise Funds	1,118
	Internal Service Funds	707
	Fiduciary Funds	2,566
Total Nonmajor Governmental Funds		13,468
Sanitation Districts	Fiduciary Funds	280
Nonmajor Enterprise Funds	General Fund	188
	Nonmajor Governmental Funds	116
	Sanitation Districts	1,198
	Internal Service Funds	6
	Fiduciary Funds	29
Total Nonmajor Enterprise Funds		1,537
Internal Service Funds	General Fund	16,007
	Nonmajor Governmental Funds	1,177
	Sanitation Districts	47
	Nonmajor Enterprise Funds	66
	Internal Service Funds	603
	Fiduciary Funds	1,831
Total Internal Service Funds		19,731
Fiduciary Funds	General Fund	1,677
	Nonmajor Governmental Funds	724
	Nonmajor Enterprise Funds	33
	Internal Service Funds	255
	Fiduciary Funds	26,159
Total Fiduciary Funds		28,848
Total		$ 242,191

Due to/due from other funds shown in the table above arise due to the exchange of goods or services between funds that were pending the transfer of cash as of June 30, 2004. These due to/from other funds have been eliminated in the government-wide financial statements, except for "internal balances" that are reflected between the governmental and business-type statements as of June 30, 2004.

(J) Restatement of Beginning Net Assets Balance

Component Unit

The beginning net asset balance of the First 5 Commission was restated due to a $660 thousand liability that was not recorded in the prior year.

Net Asset balance as of June 30, 2003	$	158,228
Adjustment for restatement		(660)
Net Asset balance, restated June 30, 2003	$	157,568

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(5) Other Note Disclosures

(A) Commitments and Contingencies

(1) Litigation
In addition to the accrued liability for litigation and workers compensation claims described in Note 5B, the County has a potential liability of $25.3 million that could result if unfavorable final decisions were rendered in numerous lawsuits to which the County is a named defendant. Appropriations are budgeted annually for those portions of obligations coming due that fiscal year. Estimates of potential liabilities described above include estimates of claims incurred but not reported at June 30, 2004.

(2) Unrecorded Leave Benefits
County employees have unrecorded accumulated benefits of approximately $128.7 million in sick leave. These benefits are not payable to employees upon termination and are normally liquidated in future years as employees elect to use their benefits as prescribed by Civil Service rules and regulations. Accumulated vacation, sick leave, and compensatory time-off for which employees are eligible for payment upon separation have been recorded as current or long-term liabilities in the appropriate proprietary funds and the statement of net assets as described in Note 1G.

(3) Third Party Debt

The tax code allows for certain types of nongovernmental borrowers to take advantage of tax-exempt financing through a governmental agency. The County of San Diego as a governmental agency, has issued tax-exempt debt on behalf of qualified borrowers. The County of San Diego is not responsible for the repayment of the debt. Accordingly, no liability for these bonds have been recorded in the statement of net assets.

Mortgage Revenue Bonds
Mortgage Revenue Bonds are issued to provide construction and permanent financing to developers of multi-family residential rental projects located in the County to be partially occupied by persons of low or moderate income. Between 1995 and 2002, the County issued $14 million of Mortgage Revenue Bonds of which $13 million were still outstanding as of June 30, 2004.

Certificates of Participation
The County has implemented a conduit program whereby the County is the issuer of tax-exempt bonds and loans, where the proceeds are provided to a qualifying for profit or nonprofit organization. The original amounts of Certificates of Participation issued as well as the amounts outstanding per issue at June 30, 2004 are as follows:

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Certificates of Participation	Date Issued	Original Amount Issued	Amount Outstanding at June 30, 2004
Sharp Hospital	April 1998	$ 112,020	104,075
San Diego Natural History Museum	December 1998	15,000	14,100
Burnham Institute	September 1999	51,500	44,500
San Diego Museum of Art (principal due at maturity)	March 2000	6,000	6,000
Salk Institute	April 2000	15,000	14,545
University of San Diego	May 2001	36,870	35,710
San Diego-Imperial Counties Developmental Services	September 2002	10,750	10,500
Chabad Jewish Academy (principal due at maturity)	January 2003	11,700	11,700
San Diego Jewish Academy (principal due at maturity)	December 2003	13,325	13,325
Total		$ 272,165	254,455

Reassessment District Improvement Bonds
Reassessment District Improvement Bonds were issued to provide refunding an earlier issuance of improvement bonds for the 4-S Ranch assessment district. The District originally issued $28.8 million of Improvement Bonds in July 1991 to finance the acquisition of certain infrastructure improvements specially benefiting properties within an assessment district. In July 1997, the District issued $21.8 million of Reassessment Bonds to refund the original issuance, of which $15.2 million were still outstanding as of June 30, 2004.

(4) Federal and State Programs

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the County expects such amounts, if any, to be immaterial.

(5) SDCERA

SDCERA is party to financial instruments with off-balance sheet risk to generate earnings and stabilize excess earnings from active management of fixed income securities and common stocks. Managed futures contracts include, but are not limited to, contracts for delayed delivery of securities, commodities, or currencies in which the seller agrees to make delivery at a specified future date of a specified instrument at a specified price or yield. Risks arise from the possible inability of counter-parties to meet the terms of their contract. The risks of loss from these off-balance sheet financial instruments include minimal credit risks, but include the possibility that future changes in market prices may make such financial instruments less valuable (market risk). Not reflected in the pension trust fund financial statements are commitments to acquire real estate for investment totaling $19 million and alternative equity for $123 million.

(6) Deposits for Other Agencies

The Treasurer is a named paying agent for various bonds issued by other agencies, e.g., school districts, pursuant to the bond covenants. The proceeds from these issues are deposited in the County pool or as specified in the bond resolution. The amounts deposited belong to the specific agency which issued the bonds and are not assets of the County. The County has no liability with respect to these issues, the repayment of these bonds are from ad valorem taxes levied on the properties in the school district.

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(7) Capital Commitments

At June 30, 2004, major contracts entered into for construction in progress, buildings, equipment and infrastructure were as follow, listed by fund within governmental or business-type activities:

	Project Title		Remaining Commitments
Governmental Activities:			
General Fund	Registrar of Voters-Integrated Voting System and Optional Items	$	30,779
	Creative Socio-Medics Corpublic Health Information System Acquisition		1,891
	Sub Total		32,670
Other Governmental Funds	Construction of Valley Center Road South, Phase I		7,549
	Construction of Riverside Drive Improvements in Lakeside		2,642
	Construction of Camino Canada		1,550
	North County Animal Shelter		4,149
	Otay Valley Regional Park Phase II		2,611
	Spring Valley Gym and Teen Center		1,924
	Construction of Polinsky Nursery Addition		1,044
	Vista Detention Control Panels		1,104
	Information Technology - Enterprise Resource Planning System Financing		13,086
	Sub Total		35,659
Business-type Activities			
Sanitation Districts	Construction of Galloway Wastewater Pump Station Improvements and Sewer Force Main Replacement		1,880
	Jamacha Blvd Sewer		2,000
	Sub Total		3,880
	Total	$	72,209

(8) Risk Management

The County operates a Risk Management Program, whereby it is self-insured for premises liability at medical facilities, medical malpractice, errors and omissions, false arrest, forgery, and general liability. The County purchases insurance for property damage, certain casualty claims, public officials bond, employee dishonesty, faithful performance, volunteers, excess workers' compensation (for losses greater than $1 million), airport comprehensive, and loss of money and securities based upon site locations. Settlements in the areas covered have not exceeded insurance coverage for each of the past three fiscal years. The County's Internal Service Fund (ISF) is used to report all of its uninsured risk management activities. Risk management liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. An actuarial evaluation was used to determine the public liability and workers compensation total risk liability at June 30, 2004. At June 30, 2004, the amount of these liabilities, including an estimate for claims incurred but not reported, was estimated at $97.8 million, including $15.2 million in public liability and $82.6 million in workers' compensation. The County began allocating the cost of providing claims service to all its operating funds as a "premium" charge expressed as a percentage of payroll beginning fiscal year 1996-1997. Changes in the balances of claim liabilities for fiscal year 2002-2003 and 2003-2004 were as follows:

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Fiscal Year	Beginning Balance at July 1, 2003	Current-Year Claims and Changes in Estimates	Claim Payments	Ending Balance at June 30, 2004
2002-2003	$ 97,794	32,578	(29,784)	$ 100,588
2003-2004	$ 100,588	29,096	(31,895)	$ 97,789

(C) Joint Venture

The County is a participant with eighteen incorporated cities in a joint venture to operate an emergency services organization for the purpose of providing regional planning and mutual assistance in the event of an emergency or disaster in the region including accidents involving hazardous waste. The organization is governed by the Unified Disaster Council composed of one voting member from each represented jurisdiction. A contractual agreement requires that the cities provide one-half of the total required funding each year. The County, by agreement, also provides one-half of the required yearly funding. Any participant may terminate participation in the agreement by giving 120 days notice prior to the beginning of the next fiscal year. Total participant contributions for fiscal year 2003-2004 were $1.3 million. The organization had a cumulative surplus of $31 thousand at June 30, 2004. Separate financial statements for the joint venture may be obtained from the office of the Auditor and Controller.

(D) Jointly Governed Organizations

The County Board of Supervisors jointly governs two service authorities, the Service Authority for Abandoned Vehicles and the Service Authority for Freeway Emergencies (S.A.F.E.). These Authorities are governed by two seven-member boards, consisting of representatives from the city councils of the incorporated cities within the County and two members of the County Board of Supervisors. The purpose of the authorities is to provide for the removal of abandoned vehicles on streets and highways and to provide for freeway emergency call boxes on major freeways within the County, respectively. Funding for the authorities is derived from vehicle license fee surcharges, which are collected by the State and deposited into the County Treasury. The County provides minimal administrative staff support for these authorities.

The County Board of Supervisors and the San Diego City Council jointly govern the San Diego Workforce Partnership (Partnership). The Partnership's Board of Directors consists of two members of the County Board of Supervisors, two members from the San Diego City Council and one member of a charitable organization. The purpose of the Partnership is to provide employment training to area residents. Funding for such training is provided by State and Federal grants.

The County also jointly governs the San Dieguito River Valley Authority, the Serra Cooperative Library System, Southern California Regional Training and Development Center, and the Van Horn Regional Treatment Facility. The governing boards of these entities consist of representatives from the County and/or other regional governments and other counties. The County does not appoint a voting majority to the above boards. Services provided by these entities include park land acquisition, coordination of library services, regional governmental training, and treatment of emotionally disturbed youth.

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(E) San Diego County Employees' Retirement System

(1) Plan Description

The SDCERA administers a cost-sharing, multi-employer defined benefit plan, with County members representing 93.6% of covered employees, which provides retirement, disability, and death benefits for plan members and beneficiaries pursuant to the County Retirement Law of 1937, as enacted and amended by the State legislature. The plan is integrated with the Federal Social Security System. Cost-of-living adjustments are provided to members and beneficiaries at the discretion of the SDCERA Board of Retirement. SDCERA issues a publicly available financial report that includes financial statements and required supplementary information for the pension plan. The financial report may be obtained by writing to the San Diego County Employees Retirement Association, 401 West A Street, Suite 1300, San Diego, California 92101 or by calling (619) 515-0130.

(2) Basis of Accounting and Fair Value of Investments (See Notes 1E and 1H, respectively).

(3) Funding Policy

State statutes require member contributions to be actuarially determined to provide a specific statutory level of benefit. Member contribution rates, as a percentage of salary, vary according to age at entry, benefit tier level, and certain negotiated contracts which provide for the County to pay a portion of the employees' contribution. Member contribution rates (weighted average), in effect at June 30, 2004, expressed as a percentage of salary are 8.39%-8.85% for general members and 9.27% for safety members. The County is also required by State statutes to contribute at an actuarially determined rate, expressed as a percentage of annual covered payroll. The fiscal year 2003-2004 rates, expressed as a percentage of covered payroll, are 19.72% for general members and 32.41% for safety members. Additionally, in accordance with various agreements with employee bargaining units, the County has contributed $55.6 million on behalf of employees.

In March 2002, the County implemented a new enhanced retirement package. In October 2002, the County issued taxable Pension Obligation Bonds to fund a portion of its statutory obligations arising from enhanced benefits. In June 2004, the County issued Pension Obligation Bonds and transferred $450 million of the issuance to the retirement fund. As a result, the retirement plan's funding status (the ratio of system assets to system liabilities) was 81.1% at June 30, 2004.

(4) Annual Pension Cost

For the fiscal year ended June 30, 2004, the County's annual pension cost was $195 million. The County's actual contribution during the fiscal year ended June 30, 2004 totaled $195 million, resulting in a net pension obligation of zero as of June 30, 2004, compared to zero at the end of the prior year. The required contribution rates, as adopted by the SDCERA Board, were determined as part of the October 3, 2002 interim actuarial valuation based on entry-age actuarial cost method. The actuarial assumptions included (a) an 8.25% investment rate-of-return, (b) projected salary increases of 4.5% per year, and (c) cost-of-living increases for retirees of 3%.

(5) Three-Year Trend Information (In Thousands):

Fiscal Year Ended June 30	Annual Pension Cost (ARC)	Percentage of ARC Contributed	Net Pension Obligation
2002	$	100.0%	$ 7,686
2003	6,538	100.0%	
2004	194,580	100.0%	

NOTES TO BASIC FINANCIAL STATEMENTS
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The Net Pension Obligation of $7.7 million at June 30, 2002 was eliminated when the County issued Pension Obligation Bonds in October 2002 and the County accounted for the reduction of the liability during fiscal year 2003-2004.

(6) Retiree Health Benefits:

Retiree health benefits may be available to eligible retirees to the extent that the Board of Retirement on an annual basis approves the payments of such benefits. The Board of Supervisors and the Board of Retirement adopted a funding mechanism under 401(h) of the Internal Revenue Service Code, which calls for a portion of the County's contributions to be deposited to a separate account each year. The amount of the contributions placed in this account are then withdrawn from the investment earnings which exceed the assumed rate of return of the portfolio, and placed in the retirement fund to ensure the funding of the pension benefits are made whole and complete. The health benefits fund began its funding with $19.9 million that can only be used to pay retirement health benefits.

Approximately 9 thousand retirees or surviving spouses are eligible to receive these benefits. SDCERA recognizes the cost of providing those benefits by expending annual insurance premiums, which approximated $26.4 million for fiscal year 2003-2004. A reserve established by the SDCERA Board of Directors for the payment of postretirement health care benefits was approximately $230.5 million at June 30, 2004, a $38.7 million decrease from the previous fiscal year.

(F) Prior Year Advance

Prior to the issuance of Revenue Bonds in 1995 by the San Diego County Redevelopment Agency, the County Airport Enterprise Fund funded the initial expenditures of the Agency's two airport projects. The Redevelopment Agency is required to reimburse the Airport Enterprise Fund, which spent approximately $9.6 million on the projects consisting of $3.7 million for initial expenditures and $5.9 million for 2001. The Agency pays interest on advances, but is not responsible for payment until funds are available for this purpose. As of June 30, 2004, interest of approximately $4.1 million has accrued on these advances, however such amounts have not been recorded because the ultimate collection has not been determined.

(G) New Governmental Accounting Standards

In April 2004, the Governmental Accounting Standards Board (GASB) issued Technical Bulletin No. 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issues.* This technical bulletin clarifies guidance on whether a Tobacco Settlement Authority that is created to obtain the rights to all or a portion of future tobacco settlement resources is a component unit of the government that created it. In addition, this Technical Bulletin clarifies recognition guidance for these transactions and for payments made to settling governments pursuant to the Master Settlement Agreement with the major tobacco companies. This technical bulletin has been adopted by the County and did not result in a change in accounting during fiscal year 2003-2004.

The County is currently analyzing its accounting practices to determine the potential impact on the financial statements for the following GASB Statements:

In March 2003, GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures - an amendment of GASB Statement No. 3.* This statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk, this statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risk identified in this statement also should be disclosed. The County will implement the new reporting requirements in its fiscal year 2004-05 financial statements.

In November 2003, GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries.* This statement establishes accounting

NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2004
(Amounts Expressed In Thousands Unless Otherwise Noted)

and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This statement also clarifies and establishes accounting requirements for insurance recoveries. This statement is effective for the County's fiscal year ending June 30, 2006.

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.* This statement establishes uniform financial reporting standards for other postemployment benefits (OPEB) plans. The approach followed in this statement generally is consistent with the approach adopted for defined benefit pension plans with modifications to reflect differences between pension plans and OPEB plans. The statement applies for OPEB trust funds included in the financial reports of plan sponsors or employers, as well as for the stand-alone financial reports of OPEB plans or the public employee retirement systems, or other third parties, that administer them. This statement also provides requirements for reporting of OPEB funds by administrators of multiple-employer OPEB plans, when the fund used to accumulate assets and pay benefits or premiums when due is not a trust fund. This statement is effective for the County's fiscal year ending June 30, 2007.

In May 2004, GASB issued Statement No. 44, *Economic Condition Reporting: The Statistical Section—an amendment of NCGA Statement 1.* This statement amends the portions of NCGA Statement 1, *Governmental Accounting and Financial Reporting Principles*, that guide the preparation of the statistical section. The statistical section presents detailed information, typically in ten-year trends, that assists users in utilizing the basic financial statements, notes to basic financial statements, and required supplementary information to assess the economic condition of a government. This statement adds new information that financial statement users have identified as important and eliminates certain previous requirements. This statement is effective for the County's fiscal year ending June 30, 2006.

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which addresses how state and local governments should account for and report their costs and obligations related to postemployment healthcare and other nonpension benefits. Collectively, these benefits are commonly referred to as other postemployment benefits, or OPEB. The statement generally requires that employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Annual OPEB cost for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due. This statement's provisions may be applied prospectively and do not require governments to fund their OPEB plans. An employer may establish its OPEB liability at zero as of the beginning of the initial year of implementation; however, the unfunded actuarial liability is required to be amortized over future periods. This statement also establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and, for certain employers, the extent to which the plan has been funded over time. This statement is effective for the County's fiscal year ending June 30, 2008.

(H) Securitization of Tobacco Settlement Revenues

The Tobacco Securitization Authority of Southern California (the "Authority") issued $466.8 million in aggregate principal amount of Tobacco Settlement Asset-Backed Bonds in January of 2002 (the "Bonds"), in order to fund the Authority's loan to San Diego Tobacco Asset Securitization Corporation, a California non-profit public benefit corporation (the "Borrower") pursuant to a loan agreement between the Authority and the Borrower. The Borrower in turn used the net proceeds of the financing, in the amount of $411 million, to pay to the County, in return for the County's transfer to the Corporation of all of the County's right, title and interest in and to and under a Master Settlement Agreement (the "MSA"), as agreed to by the State and participating jurisdiction, and a Memorandum of Understanding (the "MOU") and a supplemental agreement (the "ARIMOU") among the State of California, all California counties and four California cities, including the right of the County to receive Tobacco Settlement Payments. The MSA was entered into in November 1998, among the Attorney Generals of 46 states, the District of Columbia, The Commonwealth of Puerto Rico, Guam, U.S. Virgin

NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2004
(Amounts Expressed In Thousands Unless Otherwise Noted)

Islands, American Samoa and the Commonwealth of Northern Mariana Islands and collectively, the "Settling States" and the four largest tobacco manufacturers. Under the terms of the MSA, the settling tobacco companies agreed, among other things, to make periodic payments in perpetuity ("Tobacco Settlement Payments") in exchange for being released from claims related to the use of tobacco products. Under the MOU and the ARIMOU, the State of California agreed to distribute 50% of the Tobacco Settlement Payments it received to California counties (including the County) and four cities; the relative amounts to be received by the counties is based upon population, with adjustments being made in response to each decennial U.S. census. When the Tobacco Settlement Payments became available to the County, the County Board of Supervisors adopted Board Policy E-14, which establishes guidelines for the allocation of these revenues to new and expanded programs that would serve these targeted populations and also promote healthy lifestyles. The emphasis is on prevention and education, and is intended to reduce the abuse of alcohol, tobacco and other addictive substances, improve mental health services, significantly reduce violence and abuse, reduce the incidence of chronic and infectious diseases, and provide education regarding the effects of tobacco.

Prior to its sale of the Tobacco Settlement Payments, the County of San Diego had received approximately three years of annual payments. The County expects to use approximately $27.5 million annually from the proceeds from the sale (which were deposited in a special revenue fund and invested in municipal securities) for Board Policy E-14 purposes.

The bonds are limited obligations of the Authority payable solely from payments made by the Corporation, from Tobacco Settlement Payments purchased from the County, between the Corporation and the Authority. For the year ended June 30, 2004, $29.961 million of Tobacco Settlement Payments were recorded as other revenue in the Tobacco Securitization Joint Special Revenue Fund. The bonds do not constitute a charge against the general credit of the Authority or the County and neither will the Authority (except from loan payments by the Corporation) or the County be obligated to pay the interest on or principal of these bonds. These bonds do not constitute a debt, liability or obligation (legal, moral or otherwise) of the County. The bonds are recorded within the County's reporting entity in accordance with required accounting standards.

Future debt service requirements of the Authority as of June 30, 2004 are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total Debt Service
2005	$ 2,155	24,818	26,973
2006	2,015	24,732	26,747
2007	1,890	24,652	26,542
2008	2,065	24,557	26,622
2009	2,035	24,076	26,111
2010-2014	13,610	118,560	132,170
2015-2019	15,035	115,076	130,111
2020-2024	23,940	110,318	134,258
2025-2029	41,405	102,517	143,922
2030-2034	69,555	88,142	157,697
2035-2039	96,035	66,001	162,036
2040-2043	170,565	31,312	201,877
Total	$ 440,305	754,761	1,195,066

NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2004
(Amounts Expressed In Thousands Unless Otherwise Noted)

(I) New Debt Issued in June 2004

The County issued $454.1 million of Taxable Pension Obligation Bonds (the "POBs") in June 2004. Of this amount $450.0 million was paid to the San Diego County Employees Retirement Association, thus reducing the unfunded accrued actuarial liability and the remaining proceeds were used to pay cost of issuance. The POBs have a 20-year amortization and were issued as a Series A, Series B and a Series C. The Series A bonds consist of $241.2 million of Current Interest Bonds and mature serially with an interest rate scale of 3.28% - 5.865%. The Series B bonds consist of $147.8 million of Auction Rate Securities and mature on 2024. These bonds carry a variable interest rate and are subject to market fluctuations. The maximum interest rate on such bonds shall not exceed 17% per annum. The Series C bonds consist of $64.9 million of Capital Appreciation Bonds and mature serially with an interest rate scale of 4.66% - 5.76%. The interest on the POBs is not excludable from gross income for federal income tax purposes but is exempt from State of California personal income taxes.

(J) Subsequent Event

On September 27, 2004, the County of San Diego (the "County") deposited with BNY Western Trust Company (the "Trustee") approximately $63.5 million (the "Deposit"), which was invested in an Investment Agreement (the "Investment Agreement") entered into by the Trustee and an obligor. The obligations of the obligor under the Investment Agreement are guaranteed by American International Group, Inc. ("AIG"), which has been assigned long-term credit ratings from Moody's Investors Service and Standard & Poor's Ratings Services of "Aaa" and "AAA," respectively. Under the Investment Agreement, the obligor will make payments to the Trustee in July of each of 2005, 2006 and 2007 in amounts which will be sufficient to meet the County's remaining annual payment obligations to a counterparty under a Debt Service Forward Sale Agreement (the "Forward Agreement") currently in effect for the County's Taxable Pension Obligation Bonds, Series A (the "1994 POB Bonds") until the final maturity of the 1994 POB Bonds on August 15, 2007. In exchange for the County's annual payments, the Forward Agreement requires the counterparty thereto to deposit securities (which must be non-callable obligations issued or guaranteed by the United States of America or certain instrumentalities or agencies of the United States of America) into the Bond Fund relating to the 1994 POB Bonds the cash flows of which are sufficient to pay each scheduled payment of principal of and interest on the 1994 POB Bonds during the applicable fiscal year.

The 1994 POB Bonds will remain outstanding until their regularly scheduled maturities; if the obligor under the Investment Agreement, and AIG under its related guaranty, or the counterparty to the Forward Agreement defaults in its respective obligations for any reason, the County remains obligated to make any affected payment of principal of and interest on the 1994 POB Bonds.

Required Supplementary Information

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended June 30, 2004
(In Thousands)

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts Budgetary Basis	(Cont) Variance with Final Budget- Pos (Neg)
Public protection:				
Grand jury	$ 483	515	515	
District attorney	94,011	135,062	134,076	986
Child support	52,236	74,621	74,424	197
Public defender	42,094	59,280	58,971	309
Alternate public defender	12,891	17,513	16,849	664
Defense attorney / contract administration	7,995	8,622	8,295	327
Contributions for trial courts	68,939	77,433	77,284	149
Sheriff	419,531	547,595	526,268	21,327
Probation	144,499	182,595	177,406	5,189
Agriculture, weight & measures	12,788	16,862	16,206	656
Dept. of animal services	11,156	14,080	13,699	381
LAFCO administration	200	200	200	
Health & human services agency	2,983	3,865	3,865	
Medical examiner	6,156	8,141	8,134	7
Planning and land use	26,440	37,268	32,617	4,651
Public safety	5,271	11,736	6,693	5,043
Citizen's law enforcement review board	513	670	659	11
Land use and environment group	4,451	7,808	4,138	3,670
Assessor / recorder / county clerk	15,894	19,923	19,923	
Department of public works	298	297	214	83
Office of emergency services	2,297	10,044	7,715	2,329
Total public protection	**931,126**	**1,234,130**	**1,188,151**	**45,979**
Public ways and facilities:				
Public works	3,353	29,171	29,171	
Total public ways and facilities	**3,353**	**29,171**	**29,171**	
Health and sanitation:				
Health and human services agency	504,972	554,243	519,036	35,207
Environmental health	28,940	36,520	32,710	3,810
Department of public works	4,113	21,591	5,258	16,333
Total health and sanitation	**538,025**	**612,354**	**557,004**	**55,350**
Public assistance:				
Health and human services agency	903,704	1,010,911	939,203	71,708
Housing and community development	10,763	13,936	12,054	1,882
Total public assistance:	**914,467**	**1,024,847**	**951,257**	**73,590**
Education:				
Farm and home advisor	630	5,822	5,799	23
Total education	**630**	**5,822**	**5,799**	**23**
Recreational and cultural:				
Parks and recreation	19,346	32,801	26,144	6,657
Total recreational and cultural	**19,346**	**32,801**	**26,144**	**6,657**
Debt service:				
Countywide general expense	16,825	10,771	5,776	4,995
Total debt service	**16,825**	**10,771**	**5,776**	**4,995**
Total expenditures	2,629,937	3,252,007	2,983,163	268,844
Deficiency of revenues under expenditures	$ (484,348)	(1,011,939)	(866,108)	145,831

(Cont)

See notes to required supplementary information

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended June 30, 2004
(In Thousands)

(Cont)

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget- Pos (Neg)
	Original	Final		
Other financing sources (uses):				
Sale of capital assets	$		7	7
Transfers in	490,825	491,797	483,333	(8,464)
Transfers (out)	(246,489)	(251,445)	(203,230)	48,215
Long term debt proceeds	25	454,138	454,113	(25)
Encumbrances, beginning of year	94,617	94,617	94,617	
Total other financing sources (uses)	338,978	789,107	828,840	39,733
Net change in fund balance	(145,370)	(222,832)	(37,268)	185,564
Fund balance - beginning of year	145,370	357,865	357,865	
Increase in:				
Reserve for inventory of materials and supplies			193	193
Fund balance - end of year	$	135,033	320,790	185,757

See notes to required supplementary information

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-BUDGET AND ACTUAL GENERAL FUND For the Year Ended June 30, 2004 (In Thousands)

Explanation of differences between budget to actual comparison schedule using the operating statement format and GAAP revenues and expenditures:

REVENUES:	
Actual amounts (budgetary basis) "available for appropriation" from budgetary comparison schedule	$ 2,117,055
Differences-budget to GAAP	
Adjustment to revenue for fair value of investments	(1,151)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances-governmental funds	2,115,904
EXPENDITURES:	
Actual amounts (budgetary basis) "total charges to appropriation" from budgetary comparison schedule	2,983,163
Differences-budget to GAAP	
Year end encumbrances are added to actual expenditures for budgetary basis but not included in GAAP	(43,987)
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balance - governmental funds	2,939,176
OTHER FINANCING SOURCES (USES):	
Actual amounts (budgetary basis) from budgetary comparison schedule	828,840
Differences - budget to GAAP	
Transfer out - year end encumbrances are added to actual transfers out for budgetary basis but not included for GAAP	41,195
Beginning of year encumbrances are included in budget in the budgetary basis but not included for GAAP	(94,617)
Total other financing sources (uses) as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	$ 775,418

See notes to required supplementary information

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-BUDGET AND ACTUAL TOBACCO SECURITIZATION SPECIAL REVENUE FUND For the Year Ended June 30, 2004 (In Thousands)

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget-Pos (Neg)
	Original	Final		
Revenues:				
Revenue from use of money and property	$		4,461	4,461
Other revenue	36,938			
Total revenues	36,938		4,461	4,461
Expenditures:				
Other charges	9,451	9,451		(9,451)
Total expenditures	9,451	9,451		(9,451)
Excess (deficiency) of revenues over (under) expenditures	27,487	(9,451)	4,461	13,912
Other financing sources (uses):				
Transfers (out)	(27,487)	(27,487)	(24,083)	3,404
Total other financing sources (uses)	(27,487)	(27,487)	(24,083)	3,404
Net change in fund balance		(36,938)	(19,622)	17,316
Fund balance - beginning of year			366,119	366,119
Fund balance - end of year	$	(36,938)	346,497	383,435

See notes to required supplementary information

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-BUDGET AND ACTUAL TOBACCO SECURITIZATION SPECIAL REVENUE FUND For the Year Ended June 30, 2004 (In Thousands)

Explanation of differences between budget to actual comparison schedule using the operating statement format and GAAP revenues and expenditures:

REVENUES:

Actual amounts (budgetary basis) "available for appropriation" from budgetary comparison schedule	$	4,461
Differences-budget to GAAP		
Adjustment to revenue for fair value of investments		(1,925)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances-governmental funds	$	2,536

See notes to required supplementary information

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2004

Budgetary Information

General Budget Policies

An operating budget is adopted each fiscal year for the governmental funds. The annual resolution adopts the budget at the object level of expenditures within departments. Annual budgets are not required to be adopted for: the Tobacco Securitization Joint Special Revenue Fund (a major fund); SANCAL, a non-profit corporation, and Debt Service and Capital Projects Funds (other governmental funds). Unencumbered appropriations for the governmental funds lapse at fiscal year-end. Encumbered appropriations are carried forward to the subsequent fiscal year. Budgets for the governmental funds are adopted on a basis of accounting that is different from generally accepted accounting principles.

The major areas of differences are as follows:

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) are reported as budgeted expenditures in the year the commitment to purchase is incurred. For GAAP (generally accepted accounting principles) purposes in the fund financial statements, encumbrances outstanding at fiscal year-end are reported as reservations of fund balances and do not constitute expenditures and liabilities, because the appropriations for these commitments will be carried forward and the commitments honored in the subsequent fiscal year.

Long-term capital lease obligations are not budgeted as an expenditure and source of funds in the year the asset is acquired. Under a GAAP basis, in the fund financial statements such obligations are included as an expenditure and source of funds in the year the asset is acquired.

Loans and deposits to other agencies, if any, and their subsequent repayments are budgeted as expenditures and revenues, respectively. Under a GAAP basis in the fund financial statements, these items are not recognized as expenditures and revenues.

On a budgetary basis, unrealized gains and losses on the fair value of investments are not recognized. For GAAP purposes, such gains or losses are recognized.

Appropriations may be adjusted during the year with the approval of the Board of Supervisors. Additionally, the Chief Financial Officer is authorized to approve certain transfers and revisions of appropriations within a department. Such adjustments are reflected in the final budgetary data. Accordingly, the legal level of budgetary control by the Board of Supervisors is the department level.

Supplemental appropriations during the year ended June 30, 2004, amounted to $617.1 million in the General Fund.

Schedule of Funding Progress

San Diego County Employees' Retirement System

Schedule of Funding Progress (In millions) (unaudited):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)		Covered Payroll (c)	UAAL as a Percentage Of Covered Payroll (b-a)/(c)	
06/30/2002	$3,831.3	5,078.0	1,246.7	75.4	%	810.3	153.8	%
06/30/2003	4,417.7	5,853.1	1,435.4	75.5		906.1	158.4	
06/30/2004	5,166.8	6,369.5	1,202.7	81.1		917.1	131.1	

Combining Financial Statements/Schedules and Supplemental Information

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

ROAD FUND
This fund was established to provide for maintenance and construction of roadways and for specialized engineering services to other governmental units and the public. Revenues consist primarily of the County's share of state highway user taxes and are supplemented by federal funds, vehicle code fines, and fees and reimbursements for engineering services provided.

HCD FUND
The Housing and Community Development Fund was established to receive federal community development block grants as well as state grants. Expenditures are for special projects related to various housing programs within the County.

AIR POLLUTION FUND
This fund was established to provide for control of air pollution from motor vehicles and other sources in order to attain health based air quality standards. Revenue sources include license and permit fees, fines, state and federal funds, charges to property owners and vehicle registration fees.

LIGHTING DISTRICT FUND
This fund was established to provide street and road lighting services to specified areas of the County. Revenue sources include ad valorem taxes, benefit fees, state funding and charges to property owners.

COUNTY LIBRARY FUND
This fund was established to provide library services for the unincorporated area as well as 11 of the incorporated cities within the county. The County Library now operates a headquarters, 32 branches and 2 bookmobiles. Property taxes provide most of the fund's revenues; federal aid, state aid and fines provide the remaining revenues.

ASSET FORFEITURE PROGRAM FUND
This fund was established to account for assets which have been seized by law enforcement agencies during the investigation of criminal activities. These monies and the interest derived therefrom are used for the prevention, investigation, apprehension and prosecution of drug and other criminal law violators.

INMATE WELFARE PROGRAM FUND
This fund was established to receive telephone and other vending commissions and profits from stores operated in connection with the county jail and probation facilities. Fund expenditures, by law, must be solely for the benefit, education and welfare of confined inmates.

INACTIVE WASTESITES FUND
This fund was established to receive one-time homeowner association deposits and residual funds from the sale of the County's Solid Waste System. Expenditures include repairs, maintenance and care for the County's inactive landfill sites in accordance with all applicable governmental regulations, laws and guidelines.

CABLE TV FUND
This fund was established to account for revenue earned and expenditures made for cable television related projects appropriated for the benefit of the cable subscribers who have paid the user fees for this fund.

PARKLAND DEDICATION FUND
This fund was established to receive and expend special park land dedication fees to developers of land as a condition for approval of any development. The fees are then used for the purchase of land and the development of land for park or recreational facilities. These facilities serve the future residents of such developments. In lieu of the payment of these fees, the developer may dedicate land for park or recreational facilities.

NONPROFIT CORPORATION FUND
The nonprofit corporation fund, San Diego County Capital Asset Leasing Corporation, was established as a cost-effective means of financing the purchase of necessary equipment and the acquisition and construction of permanent buildings on behalf of the County through the sale of tax exempt certificates of participation.

COUNTY SERVICE DISTRICTS FUNDS
These special district funds were established to provide authorized services such as road, park, lighting maintenance, fire protection or ambulance service to specific areas in the County. They are financed by ad valorem property taxes in the area benefited or by special assessments levied on specific properties.

FLOOD CONTROL DISTRICT FUND
This fund was established to account for revenues and expenditures related to providing flood control in the county. It is financed primarily by ad valorem property taxes and federal grants.

HOUSING AUTHORITY FUND
This fund was established to account for revenues and expenditures related to providing decent housing in a suitable environment for individuals who cannot afford standard private housing. Contracts with the U.S. Department of Housing and Urban Development provide the major funding sources.

REALIGNMENT FUND
This fund was established to account for revenues and expenditures related to providing health, mental health and public assistance programs to qualifying individuals. It is based upon the state health and welfare realignment act of 1991. The financing is provided by a one-half cent sales tax as provided in the State's Revenue and Taxation Code.

PUBLIC SAFETY FUND
This fund was established to account for revenues and expenditures related to providing public safety services such as sheriffs, fire protection, county district attorneys and county corrections. It does not include courts, but provides for an allocation to cities. It is financed by a one-half sales and use tax passed through a voter approved state proposition.

IHSS PUBLIC AUTHORITY FUND
This authority was established for the administration of the IHSS registry, investigation of the qualifications and background of potential registry personnel, referral of registry personnel to IHSS recipients and the provision for training of providers and recipients. Financing is provided by the Social Services Realignment fund, federal and state programs.

OTHER SPECIAL DISTRICTS FUNDS
These funds were established to receive user fees, land lease revenues, fines and state funding. Expenditures include retracement or remonument surveys, improvements for grazing lands, wildlife propagation and aviation purpose capital improvements and repairs.

DEBT SERVICE FUNDS

PENSION OBLIGATION BONDS FUND
This fund receives payments from the County and other agencies for payment of principal and interest due on taxable pension obligation bonds. The debt issue was used to satisfy the County's requirement to amortize the unfunded actuarial accrued liability with respect to retirement benefits accruing to members of the association.

NONPROFIT CORPORATION FUND
This fund receives rental payments based on lease purchase agreements from the capital outlay fund and the general fund for payment of principal and interest due on certificates of participation. These debt issuances are legal obligations of a nonprofit corporation and were issued to finance the purchasing of necessary equipment and the acquisition and construction of permanent buildings by the County. Debt is secured by the lease purchase payments from the County.

REDEVELOPMENT AGENCY FUND
This fund receives proceeds of redevelopment area incremental taxes and interest revenues based on a trust agreement between the agency and a trustee bank for payment of principal and interest due on revenue bonds. Pledged installments from the county airport system are deposited with a trustee and are available if taxes and interest are insufficient to pay debt service payments. In addition to the pledged amounts, a bond reserve was funded with bond proceeds.

CAPITAL PROJECTS FUNDS

CAPITAL OUTLAY FUND
This fund is used exclusively to finance the acquisition, construction and completion of permanent public improvements including public buildings and for the costs of acquiring land and permanent improvements. The fund may also be used to make annual payments on bond indebtedness for the construction of public facilities and to acquire public facilities through lease purchases. Revenues are obtained from the sale of fixed assets, from lease or rental of county-owned facilities, and from other funds such as grants and contributions when allocated by the Board of Supervisors to the fund.

EDGEMOOR DEVELOPMENT FUND
This fund is used exclusively for assisting in the development of the Edgemoor property. The Edgemoor property represents approximately 375 acres of county owned land and 50 acres owned by the Grossmont Union High School District in the Santee area. Future development may include parks, a library, housing, a fire station, post office and others. Revenues are derived from the sale or lease of land within the Edgemoor property.

NONPROFIT CORPORATION FUND
This fund is used to account for the expenditure of the proceeds from the sale of nonprofit corporation certificates of participation for the purchase of various types of equipment and the acquisition and construction of permanent buildings by the County.

REDEVELOPMENT AGENCY FUND
This fund is used to account for the proceeds of redevelopment area incremental taxes, interest revenues and temporary loans. Redevelopment project expenditures, in accordance with California community redevelopment law, include redevelopment planning, design, improvement cost, professional services and administrative costs.

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2004
(In Thousands)

	Special Revenue	Debt Service	Capital Projects	Total Nonmajor Governmental Funds
ASSETS				
Equity in pooled cash and investments	$ 217,531	9,641	26,902	254,074
Cash with fiscal agent	574	6,201	521	7,296
Collections in transit	1,517			1,517
Imprest cash	17			17
Investments	43,669			43,669
Receivables	115,944	124	5,495	121,563
Due from other funds	8,267	2,439	2,762	13,468
Advances to other funds		120		120
Inventory of materials and supplies	1,672			1,672
Deposits with others	1,487		7	1,494
Prepaid items	2		1,283	1,285
Restricted assets:				
Cash with fiscal agent		6,035		6,035
Investments		14,312		14,312
Total assets	390,680	38,872	36,970	466,522
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	12,246		2,785	15,031
Accrued payroll	3,013			3,013
Due to other funds	73,054	531	9,451	83,036
Advances from other funds	581	287	10,245	11,113
Deferred revenue	10,268		1,116	11,384
Total liabilities	99,162	818	23,597	123,577
Fund Balances:				
Reserved for encumbrances	30,208		219	30,427
Reserved for notes receivable and advances	31,583		1,000	32,583
Reserved for deposits with others	304		7	311
Reserved for landfill closure	7,000			7,000
Reserved for inventory of materials and supplies	1,672			1,672
Reserved for debt service		38,054		38,054
Reserved for other purposes	44,079		1,283	45,362
Unreserved:				
Designated for subsequent years' expenditures	786			786
Designated for landfill postclosure and inactive landfill maintenance	76,263			76,263
Undesignated	99,623		10,864	110,487
Total fund balances	291,518	38,054	13,373	342,945
Total liabilities and fund balances	$ 390,680	38,872	36,970	466,522

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE
June 30, 2004
(In Thousands)

		Road	HCD	Air Pollution	Lighting District
ASSETS					
Equity in pooled cash and investments	$	38,013	3,421	26,109	462
Cash with fiscal agent		5		2	
Collections in transit			37	509	
Imprest cash		3		1	
Investments					
Receivables		6,040	24,535	1,440	30
Due from other funds		3,715	833	100	9
Inventory of materials and supplies		1,425		75	
Deposits with others		1,183			
Prepaid items					
Total assets		50,384	28,826	28,236	501
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable		3,968	707	100	191
Accrued payroll		1,589		562	
Due to other funds		1,554	5,014	408	27
Advances from other funds					
Deferred revenue		1,588		405	
Total liabilities		8,699	5,721	1,475	218
Fund Balances:					
Reserved for encumbrances		7,316		16,083	18
Reserved for notes receivable			23,105		
Reserved for deposits with others					
Reserved for landfill closure					
Reserved for inventory of materials and supplies		1,425		75	
Reserved for other purposes		26,463			202
Unreserved:					
Designated for subsequent years' expenditures				700	
Designated for landfill postclosure and inactive landfill maintenance					
Undesignated		6,481		9,903	63
Total fund balances		41,685	23,105	26,761	283
Total liabilities and fund balances	$	50,384	28,826	28,236	501

(Cont)

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE
June 30, 2004
(In Thousands)

(Cont)

	County Library	Asset Forfeiture Program	Inmate Welfare Program	Inactive Wastesites
ASSETS				
Equity in pooled cash and investments	$ 8,172	4,144	7,134	43,406
Cash with fiscal agent	12			
Collections in transit		16	172	2
Imprest cash	5		8	
Investments				43,669
Receivables		3		387
Due from other funds	375	15	153	1,205
Inventory of materials and supplies	87	15	69	
Deposits with others				
Prepaid items				
Total assets	8,651	4,193	7,536	88,669
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	750	312	76	4,042
Accrued payroll	703			81
Due to other funds	499	71	296	202
Advances from other funds				
Deferred revenue			1,959	1,081
Total liabilities	1,952	383	2,331	5,406
Fund Balances:				
Reserved for encumbrances	2,087	232	1,136	
Reserved for notes receivable				
Reserved for deposits with others				
Reserved for landfill closure				7,000
Reserved for inventory of materials and supplies	87	15	69	
Reserved for other purposes				
Unreserved:				
Designated for subsequent years' expenditures	86			
Designated for landfill postclosure and inactive landfill maintenance				76,263
Undesignated	4,439	3,563	4,000	
Total fund balances	6,699	3,810	5,205	83,263
Total liabilities and fund balances	$ 8,651	4,193	7,536	88,669

(Cont)

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE
June 30, 2004
(In Thousands)

(Cont)

	Cable TV	Parkland Dedication	Nonprofit Corporation	County Service Districts
ASSETS				
Equity in pooled cash and investments	$ 2,136	8,001	599	15,356
Cash with fiscal agent		4	112	
Collections in transit				59
Imprest cash				
Investments				
Receivables				
Due from other funds	109	30	183	124
Inventory of materials and supplies	1			
Deposits with others				
Prepaid items				
Total assets	2,246	8,035	894	15,539
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	46	3	15	571
Accrued payroll	70			8
Due to other funds	24	151		590
Advances from other funds				581
Deferred revenue				710
Total liabilities	140	154	15	2,460
Fund Balances:				
Reserved for encumbrances	148	1,316		580
Reserved for notes receivable				
Reserved for deposits with others				
Reserved for landfill closure				
Reserved for inventory of materials and supplies	1			
Reserved for other purposes				1,366
Unreserved:				
Designated for subsequent years' expenditures				
Designated for landfill postclosure and inactive landfill maintenance				
Undesignated	1,957	6,565	879	11,133
Total fund balances	2,106	7,881	879	13,079
Total liabilities and fund balances	$ 2,246	8,035	894	15,539

(Cont)

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE
June 30, 2004
(In Thousands)

(Cont)

		Flood Control District	Housing Authority	Realignment
ASSETS				
Equity in pooled cash and investments	$	20,584	10,104	4,479
Cash with fiscal agent			438	
Collections in transit		5	2	650
Imprest cash				
Investments				
Receivables			9,800	39,084
Due from other funds		103	616	634
Inventory of materials and supplies				
Deposits with others		54	250	
Prepaid items			2	
Total assets		20,746	21,212	44,847
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable		200	1,238	
Accrued payroll				
Due to other funds		143	1,569	13,044
Advances from other funds				
Deferred revenue			4,525	
Total liabilities		343	7,332	13,044
Fund Balances:				
Reserved for encumbrances		850		
Reserved for notes receivable			8,478	
Reserved for deposits with others		54	250	
Reserved for landfill closure				
Reserved for inventory of materials and supplies				
Reserved for other purposes		16,048		
Unreserved:				
Designated for subsequent years' expenditures				
Designated for landfill postclosure and inactive landfill maintenance				
Undesignated		3,451	5,152	31,803
Total fund balances		20,403	13,880	31,803
Total liabilities and fund balances	$	20,746	21,212	44,847

(Cont)

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE
June 30, 2004
(In Thousands)

(Cont)

	Public Safety	IHSS Public Authority	Other Special Districts	Total Special Revenue
ASSETS				
Equity in pooled cash and investments	$ 22,991	2,003	417	217,531
Cash with fiscal agent			1	574
Collections in transit		65		1,517
Imprest cash				17
Investments				43,669
Receivables	34,625			115,944
Due from other funds	49	9	5	8,267
Inventory of materials and supplies				1,672
Deposits with others				1,487
Prepaid items				2
Total assets	57,665	2,077	423	390,680
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable		27		12,246
Accrued payroll				3,013
Due to other funds	47,687	1,715	60	73,054
Advances from other funds				581
Deferred revenue				10,268
Total liabilities	47,687	1,742	60	99,162
Fund Balances:				
Reserved for encumbrances	168	253	21	30,208
Reserved for notes receivable				31,583
Reserved for deposits with others				304
Reserved for landfill closure				7,000
Reserved for inventory of materials and supplies				1,672
Reserved for other purposes				44,079
Unreserved:				
Designated for subsequent years' expenditures				786
Designated for landfill postclosure and inactive landfill maintenance				76,263
Undesignated	9,810	82	342	99,623
Total fund balances	9,978	335	363	291,518
Total liabilities and fund balances	$ 57,665	2,077	423	390,680

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DEBT SERVICE
June 30, 2004
(In Thousands)

	Pension Obligation Bonds	Nonprofit Corporation	Redevelopment Agency	Total Debt Service
ASSETS				
Equity in pooled cash and investments	$ 6,780	1,404	1,457	9,641
Cash with fiscal agent	5,762		439	6,201
Receivables		103	21	124
Due from other funds	2,424	7	8	2,439
Advances to other funds		120		120
Restricted Assets:				
Cash with fiscal agent		6,035		6,035
Investments		14,312		14,312
Total assets	14,966	21,981	1,925	38,872
LIABILITIES AND FUND BALANCES				
Liabilities:				
Due to other funds		183	348	531
Advances from other funds			287	287
Total liabilities		183	635	818
Fund balances:				
Reserved for debt service	14,966	21,798	1,290	38,054
Total liabilities and fund balances	$ 14,966	21,981	1,925	38,872

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
CAPITAL PROJECTS
June 30, 2004
(In Thousands)

	Capital Outlay	Edgemoor Development	Nonprofit Corporation	Redevelopment Agency	Total Capital Projects
ASSETS					
Equity in pooled cash and investments	$ 14,902	2,189	6,578	3,233	26,902
Cash with fiscal agent			521		521
Receivables	4,470	4		1,021	5,495
Due from other funds	2,342	8	25	387	2,762
Deposits with others	7				7
Prepaid items				1,283	1,283
Total assets	21,721	2,201	7,124	5,924	36,970
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	1,968	4		813	2,785
Due to other funds	9,373	2		76	9,451
Advances from other funds				10,245	10,245
Deferred revenue	1,116				1,116
Total liabilities	12,457	6		11,134	23,597
Fund balances:					
Reserved for encumbrances		179		40	219
Reserved for notes receivables and advances				1,000	1,000
Reserved for deposits with others	7				7
Reserved for other purposes				1,283	1,283
Unreserved	9,257	2,016	7,124	(7,533)	10,864
Total fund balances	9,264	2,195	7,124	(5,210)	13,373
Total liabilities and fund balances	$ 21,721	2,201	7,124	5,924	36,970

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS For the Year Ended June 30, 2004 (In Thousands)

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total Nonmajor Governmental
Revenues:				
Taxes	$ 36,541	775	2,800	40,116
Licenses, permits and franchises	11,019			11,019
Fines, forfeitures and penalties	2,755		3,377	6,132
Revenue from use of money and property	6,109	868	1,592	8,569
Aid from other governmental agencies:				
State	522,310		29,139	551,449
Federal	110,115		2,127	112,242
Other	5,864	5,754	800	12,418
Charges for current services	31,247		9	31,256
Other revenue	3,311		583	3,894
Total revenues	729,271	7,397	40,427	777,095
Expenditures:				
Current:				
General	2,290	1,412	4,750	8,452
Public protection	43,527		639	44,166
Public ways and facilities	91,443			91,443
Health and sanitation	10,438		184	10,622
Public assistance	105,380			105,380
Education	25,510			25,510
Recreational and cultural	993			993
Capital outlay			54,958	54,958
Debt service				
Principal	229	60,680		60,909
Interest	105	61,792		61,897
Bond issuance costs		4,095		4,095
Total expenditures	279,915	127,979	60,531	468,425
Excess (deficiency) of revenues over (under) expenditures	449,356	(120,582)	(20,104)	308,670
Other financing sources (uses):				
Sale of capital assets	2,907		1,130	4,037
Transfers in	89,970	134,032	68,832	292,834
Transfers (out)	(539,317)	(5,416)	(46,329)	(591,062)
Long term debt proceeds	66			66
Total other financing sources (uses)	(446,374)	128,616	23,633	(294,125)
Net change in fund balances	2,982	8,034	3,529	14,545
Fund balances - beginning of year	288,608	30,020	9,844	328,472
Decrease in:				
Reserve for inventory of materials and supplies	(72)			(72)
Fund balances - end of year	$ 291,518	38,054	13,373	342,945

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE
For the Year Ended June 30, 2004
(In Thousands)

	Road	HCD	Air Pollution	Lighting District
Revenues:				
Taxes	$ 10,673			769
Licenses, permits and franchises	97		6,573	
Fines, forfeitures and penalties	51		1,705	
Revenue from use of money and property	940		157	6
Aid from other governmental agencies:				
State	45,301		948	11
Federal	4,071	11,905	2,549	
Other		823	4,848	
Charges for current services	19,165		313	266
Other revenue	1,723	64	188	3
Total revenues	82,021	12,792	17,281	1,055
Expenditures:				
Current:				
General				
Public protection			20,101	
Public ways and facilities	86,657			1,963
Health and sanitation				
Public assistance		8,476		
Education				
Recreational and cultural				
Debt service				
Principal				
Interest				
Total expenditures	86,657	8,476	20,101	1,963
Excess deficiency of revenues over (under) expenditures	(4,636)	4,316	(2,820)	(908)
Other financing sources (uses):				
Sale of capital assets				
Transfers in	3,645		4,390	
Transfers (out)	(1,917)	(1,573)	(4,778)	
Long term debt proceeds				
Total other financing sources (uses)	1,728	(1,573)	(388)	
Net change in fund balances	(2,908)	2,743	(3,208)	(908)
Fund balances - beginning of year	44,593	20,362	29,990	1,191
Decrease in:				
Reserve for inventory of materials and supplies			(21)	
Fund balances - end of year	$ 41,685	23,105	26,761	283

(Cont)

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE
For the Year Ended June 30, 2004
(In Thousands)

(Cont)

	County Library	Asset Forfeiture Program	Inmate Welfare Program	Inactive Wastesites
Revenues:				
Taxes	$ 19,591			
Licenses, permits and franchises	841			
Fines, forfeitures and penalties		951		
Revenue from use of money and property	45	21	3,765	881
Aid from other governmental agencies:				
State	835			319
Federal	5			
Other				
Charges for current services	1,165		208	1,185
Other revenue	604	101	322	84
Total revenues	23,086	1,073	4,295	2,469
Expenditures:				
Current:				
General				
Public protection		1,283	2,773	14,236
Public ways and facilities				
Health and sanitation				
Public assistance				
Education	25,510			
Recreational and cultural				
Debt service				
Principal				
Interest				
Total expenditures	25,510	1,283	2,773	14,236
Excess deficiency of revenues over (under) expenditures	(2,424)	(210)	1,522	(11,767)
Other financing sources (uses):				
Sale of capital assets			1	2,331
Transfers in	3,360		400	763
Transfers (out)	(727)	(50)	(2,329)	(282)
Long term debt proceeds				
Total other financing sources (uses)	2,633	(50)	(1,928)	2,812
Net change in fund balances	209	(260)	(406)	(8,955)
Fund balances - beginning of year	6,510	4,077	5,629	92,224
Decrease in:				
Reserve for inventory of materials and supplies	(20)	(7)	(18)	(6)
Fund balances - end of year	$ 6,699	3,810	5,205	83,263

(Cont)

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE
For the Year Ended June 30, 2004
(In Thousands)

(Cont)

	Cable TV	Parkland Dedication	Nonprofit Corporation	County Service Districts
Revenues:				
Taxes	$			2,725
Licenses, permits and franchises	2,155	1,353		
Fines, forfeitures and penalties				
Revenue from use of money and property	15	39	59	83
Aid from other governmental agencies:				
State				35
Federal				
Other			55	80
Charges for current services	120			6,493
Other revenue	2			68
Total revenues	2,292	1,392	114	9,484
Expenditures:				
Current:				
General	2,240		50	
Public protection				952
Public ways and facilities				1,253
Health and sanitation				4,012
Public assistance				
Education				
Recreational and cultural		69		924
Debt service				
Principal				99
Interest				70
Total expenditures	2,240	69	50	7,310
Excess deficiency of revenues over (under) expenditures	52	1,323	64	2,174
Other financing sources (uses):				
Sale of capital assets				
Transfers in			69,131	2
Transfers (out)	(91)	(360)	(69,865)	(1,108)
Long term debt proceeds				66
Total other financing sources (uses)	(91)	(360)	(734)	(1,040)
Net change in fund balances	(39)	963	(670)	1,134
Fund balances - beginning of year	2,145	6,918	1,549	11,945
Decrease in:				
Reserve for inventory of materials and supplies				
Fund balances - end of year	$ 2,106	7,881	879	13,079

(Cont)

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE For the Year Ended June 30, 2004 (In Thousands)

(Cont)

	Flood Control Districts	Housing Authority	Realignment	Public Safety
Revenues:				
Taxes	$ 2,783			
Licenses, permits and franchises				
Fines, forfeitures and penalties				
Revenue from use of money and property		77		
Aid from other governmental agencies:				
State	39		273,656	201,136
Federal	1	91,583		
Other	8	50		
Charges for current services	1,917	227		
Other revenue		152		
Total revenues	4,748	92,089	273,656	201,136
Expenditures:				
Current:				
General				
Public protection	4,174			
Public ways and facilities				
Health and sanitation				
Public assistance		96,904		
Education				
Recreational and cultural				
Debt service				
Principal		130		
Interest		35		
Total expenditures	4,174	97,069		
Excess deficiency of revenues over (under) expenditures	574	(4,980)	273,656	201,136
Other financing sources (uses):				
Sale of capital assets		575		
Transfers in		1,577		
Transfers (out)	(520)	(411)	(263,486)	(191,637)
Long term debt proceeds				
Total other financing sources (uses)	(520)	1,741	(263,486)	(191,637)
Net change in fund balances	54	(3,239)	10,170	9,499
Fund balances - beginning of year	20,349	17,119	21,633	479
Decrease in:				
Reserve for inventory of materials and supplies				
Fund balances - end of year	$ 20,403	13,880	31,803	9,978

(Cont)

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE
For the Year Ended June 30, 2004
(In Thousands)

(Cont)

	IHSS Public Authority	Other Special Districts	Total Special Revenue
Revenues:			
Taxes	$		36,541
Licenses, permits and franchises			11,019
Fines, forfeitures and penalties		48	2,755
Revenue from use of money and property	15	6	6,109
Aid from other governmental agencies:			
State		30	522,310
Federal		1	110,115
Other			5,864
Charges for current services		188	31,247
Other revenue			3,311
Total revenues	15	273	729,271
Expenditures:			
Current:			
General			2,290
Public protection		8	43,527
Public ways and facilities		1,570	91,443
Health and sanitation	6,426		10,438
Public assistance			105,380
Education			25,510
Recreational and cultural			993
Debt service			
Principal			229
Interest			105
Total expenditures	6,426	1,578	279,915
Excess deficiency of revenues over (under) expenditures	(6,411)	(1,305)	449,356
Other financing sources (uses):			
Sale of capital assets			2,907
Transfers in	6,702		89,970
Transfers (out)		(183)	(539,317)
Long term debt proceeds			66
Total other financing sources (uses)	6,702	(183)	(446,374)
Net change in fund balances	291	(1,488)	2,982
Fund balances - beginning of year	44	1,851	288,608
Decrease in:			
Reserve for inventory of materials and supplies			(72)
Fund balances - end of year	$ 335	363	291,518

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS - DEBT SERVICE
For the Year Ended June 30, 2004
(In Thousands)

	Pension Obligation Bonds	Nonprofit Corporation	Redevelopment Agency	Total Debt Service
Revenues:				
Taxes	$		775	775
Revenue from use of money and property	5	845	18	868
Aid from other governmental agencies:				
Other	5,754			5,754
Total revenues	5,759	845	793	7,397
Expenditures:				
Current:				
General	1,118	294		1,412
Debt service				
Principal	9,630	50,920	130	60,680
Interest	42,246	19,254	292	61,792
Bond issuance costs	4,095			4,095
Total expenditures	57,089	70,468	422	127,979
Excess (deficiency) of revenues over (under) expenditures	(51,330)	(69,623)	371	(120,582)
Other financing sources (uses):				
Transfers in	63,927	70,105		134,032
Transfers (out)		(4,641)	(775)	(5,416)
Total other financing sources (uses)	63,927	65,464	(775)	128,616
Net change in fund balances	12,597	(4,159)	(404)	8,034
Fund balances - beginning of year	2,369	25,957	1,694	30,020
Fund balances - end of year	$ 14,966	21,798	1,290	38,054

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECTS
For the Year Ended June 30, 2004
(In Thousands)

	Capital Outlay	Edgemoor Development	Nonprofit Corporation	Redevelopment Agency	Total Capital Projects
Revenues:					
Taxes	$ 442			2,358	2,800
Fines, forfeitures and penalties	3,377				3,377
Revenue from use of money and property	1,232	282	56	22	1,592
Aid from other governmental agencies:					
State	29,139				29,139
Federal	2,127				2,127
Other	800				800
Charges for current services	9				9
Other revenue	333	250			583
Total revenues	37,459	532	56	2,380	40,427
Expenditures:					
Current:					
General	3,260			1,490	4,750
Public protection				639	639
Health and sanitation		184			184
Capital outlay	52,672		2,286		54,958
Total expenditures	55,932	184	2,286	2,129	60,531
Excess (deficiency) of revenues over (under) expenditures	(18,473)	348	(2,230)	251	(20,104)
Other financing sources (uses):					
Sale of capital assets	555	575			1,130
Transfers in	68,057			775	68,832
Transfers (out)	(45,971)		(358)		(46,329)
Total other financing sources (uses)	22,641	575	(358)	775	23,633
Net change in fund balances	4,168	923	(2,588)	1,026	3,529
Fund balances - beginning of year	5,096	1,272	9,712	(6,236)	9,844
Fund balances - end of year	$ 9,264	2,195	7,124	(5,210)	13,373

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-BUDGET AND ACTUAL
ROAD FUND
For the Year Ended June 30, 2004
(In Thousands)

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts Budgetary Basis	Variance with Final Budget-Pos (Neg)
Revenues				
Taxes	$ 21,969	49,030	10,673	(38,357)
Licenses, permits and franchises	90	90	97	7
Fines, forfeitures and penalties			51	51
Revenue from use of money and property	802	802	1,324	522
Aid from other governmental agencies:				
State	45,138	45,138	45,301	163
Federal	4,771	11,105	4,071	(7,034)
Charges for current services	26,392	28,520	19,165	(9,355)
Other revenue	51	371	1,723	1,352
Total revenues	99,213	135,056	82,405	(52,651)
Expenditures				
Current:				
Public ways and facilities				
Public works road	156,905	156,261	95,023	61,238
Total expenditures	156,905	156,261	95,023	61,238
Excess (deficiency) of revenues over (under) expenditures	(57,692)	(21,205)	(12,618)	8,587
Other financing sources (uses)				
Transfers in	475	4,805	3,645	(1,160)
Transfers (out)	(1,884)	(1,965)	(1,917)	48
Encumbrances, beginning of year	17,850	17,850	17,850	
Total other financing sources (uses)	16,441	20,690	19,578	(1,112)
Net change in fund balance	$ (41,251)	(515)	6,960	7,475

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-BUDGET AND ACTUAL
HCD FUND
For the Year Ended June 30, 2004
(In Thousands)

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget-Pos (Neg)
	Original	Final		
Revenues				
Aid from other governmental agencies:				
State		1,000		(1,000)
Federal	$ 28,442	35,094	11,905	(23,189)
Other	162	184	823	639
Other revenue			64	64
Total revenues	28,604	36,278	12,792	(23,486)
Expenditures				
Current:				
Public assistance				
Housing and community dev.	23,263	28,599	6,985	21,614
Total expenditures	23,263	28,599	6,985	21,614
Excess of revenues over expenditures	5,341	7,679	5,807	(1,872)
Other financing sources (uses)				
Transfers (out)	(5,341)	(7,679)	(3,064)	4,615
Total other financing sources (uses)	(5,341)	(7,679)	(3,064)	4,615
Net change in fund balance	$		2,743	2,743

SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE-BUDGET AND ACTUAL
AIR POLLUTION FUND
For the Year Ended June 30, 2004
(In Thousands)

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget-Pos (Neg)
	Original	Final		
Revenues				
Licenses, permits and franchises	$ 6,901	6,900	6,573	(327)
Fines, forfeitures and penalties	532	667	1,705	1,038
Revenue from use of money and property	300	300	427	127
Aid from other governmental agencies:				
State	821	1,638	948	(690)
Federal	2,357	2,357	2,549	192
Other	4,190	4,190	4,848	658
Charges for current services	1,038	1,038	313	(725)
Other revenue			188	188
Total revenues	16,139	17,090	17,551	461
Expenditures				
Current:				
Health and sanitation				
Air pollution control	36,196	40,691	36,184	4,507
Total expenditures	36,196	40,691	36,184	4,507
Deficiency of revenues over (under) expenditures	(20,057)	(23,601)	(18,633)	4,968
Other financing sources (uses)				
Sale of capital assets				
Transfers in	4,390	4,390	4,390	
Transfers (out)	(4,778)	(4,778)	(4,778)	
Encumbrances, beginning of year	18,888	18,888	18,888	
Total other financing sources (uses)	18,500	18,500	18,500	
Net change in fund balance	$ (1,557)	(5,101)	(133)	4,968

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-BUDGET AND ACTUAL
LIGHTING DISTRICT FUND
For the Year Ended June 30, 2004
(In Thousands)

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget-Pos (Neg)
	Original	Final		
Revenues				
Taxes	$ 780	780	769	(11)
Revenue from use of money and property	23	23	13	(10)
Aid from other governmental agencies:				
State	20	20	11	(9)
Charges for current services	230	230	266	36
Other revenue			3	3
Total revenues	1,053	1,053	1,062	9
Expenditures				
Current:				
Public ways and facilities				
Public works lighting district	1,992	1,992	1,980	12
Total expenditures	1,992	1,992	1,980	12
Deficiency of revenues over (under) expenditures	(939)	(939)	(918)	21
Other financing sources (uses)				
Encumbrances, beginning of year	115	115	115	
Total other financing sources (uses)	115	115	115	
Net change in fund balance	$ (824)	(824)	(803)	21

SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE-BUDGET AND ACTUAL
COUNTY LIBRARY FUND
For the Year Ended June 30, 2004
(In Thousands)

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts Budgetary Basis	Variance with Final Budget-Pos (Neg)
Revenues				
Taxes	$ 18,287	18,287	19,591	1,304
Licenses, permits and franchises	479	479	841	362
Revenue from use of money and property	189	189	124	(65)
Aid from other governmental agencies:				
State	1,475	1,475	835	(640)
Federal	2	2	5	3
Charges for current services	1,087	1,087	1,165	78
Other revenue	585	585	604	19
Total revenues	22,104	22,104	23,165	1,061
Expenditures				
Current:				
Education				
County library	30,279	30,251	25,996	4,255
Total expenditures	30,279	30,251	25,996	4,255
Deficiency of revenues over (under) expenditures	(8,175)	(8,147)	(2,831)	5,316
Other financing sources (uses)				
Transfers in	3,360	3,360	3,360	
Transfers (out)	(823)	(930)	(727)	203
Encumbrances, beginning of year	4,140	4,140	4,140	
Total other financing sources (uses)	6,677	6,570	6,773	203
Net change in fund balance	$ (1,498)	(1,577)	3,942	5,519

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-BUDGET AND ACTUAL ASSET FORFEITURE PROGRAM FUND For the Year Ended June 30, 2004 (In Thousands)

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget-Pos (Neg)
	Original	Final		
Revenues				
Fines, forfeitures and penalties	$ 600	605	951	346
Revenue from use of money and property			62	62
Other revenue			101	101
Total revenues	600	605	1,114	509
Expenditures				
Current:				
Public protection				
Sheriff's asset forfeiture	2,114	2,085	946	1,139
Probation asset forfeiture	65	65	41	24
DA asset forfeiture		707	478	229
DA asset forfeiture - state		57	50	7
Total expenditures	2,179	2,914	1,515	1,399
Deficiency of revenues over (under) expenditures	(1,579)	(2,309)	(401)	1,908
Other financing sources (uses)				
Transfers (out)		(51)	(50)	1
Encumbrances, beginning of year	519	519	519	
Total other financing sources (uses)	519	468	469	1
Net change in fund balance	$ (1,060)	(1,841)	68	1,909

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-BUDGET AND ACTUAL INMATE WELFARE PROGRAM FUND For the Year Ended June 30, 2004 (In Thousands)

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget- Pos (Neg)
	Original	Final		
Revenues	$			
Revenue from use of money and property	3,700	3,700	3,839	139
Charges for current services			208	208
Other revenue	300	300	322	22
Total revenues	4,000	4,000	4,369	369
Expenditures				
Current:				
Public protection				
Sheriff's inmate welfare	4,151	3,011	2,929	82
Probation inmate welfare	230	228	218	10
Total expenditures	4,381	3,239	3,147	92
Excess (deficiency) of revenues over (under) expenditures	(381)	761	1,222	461
Other financing sources (uses)				
Sale of capital assets			1	1
Transfers in	400	400	400	
Transfers (out)	(3,651)	(3,649)	(3,091)	558
Encumbrances, beginning of year	875	875	875	
Total other financing sources (uses)	(2,376)	(2,374)	(1,815)	559
Net change in fund balance	$ (2,757)	(1,613)	(593)	1,020

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-BUDGET AND ACTUAL INACTIVE WASTESITES FUND For the Year Ended June 30, 2004 (In Thousands)

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts Budgetary Basis	Variance with Final Budget-Pos (Neg)
Revenues	$			
Revenue from use of money and property	576	576	881	305
Aid from other governmental agencies:				
State	243	263	319	56
Other				
Charges for current services	1,241	1,241	1,185	(56)
Other revenue	13,014	14,284	84	(14,200)
Total revenues	15,074	16,364	2,469	(13,895)
Expenditures				
Current:				
Public protection				
Inactive waste site management	14,713	16,542	14,700	1,842
Debt service				
Total expenditures	14,713	16,542	14,700	1,842
Excess (deficiency) of revenues over (under) expenditures	361	(178)	(12,231)	(12,053)
Other financing sources (uses)				
Sale of Capital Assets			2,331	2,331
Transfers in	394	904	763	(141)
Transfers (out)	(755)	(755)	(282)	473
Total other financing sources (uses)	(361)	149	2,812	2,663
Net change in fund balance	$	(29)	(9,419)	(9,390)

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-BUDGET AND ACTUAL
CABLE TV FUND
For the Year Ended June 30, 2004
(In Thousands)

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts Budgetary Basis	Variance with Final Budget-Pos (Neg)
Revenues				
Licenses, permits and franchises	$ 2,444	2,444	2,155	(289)
Revenue from use of money and property			36	36
Charges for current services			120	120
Other revenue			2	2
Total revenues	2,444	2,444	2,313	(131)
Expenditures				
Current:				
General				
Media and public relations	2,436	2,735	2,388	347
Total expenditures	2,436	2,735	2,388	347
Excess (deficiency) of revenues over (under) expenditures	8	(291)	(75)	216
Other financing sources (uses)				
Transfers (out)	(91)	(91)	(91)	
Encumbrances, beginning of year	83	83	83	
Total other financing sources (uses)	(8)	(8)	(8)	
Net change in fund balance	$	(299)	(83)	216

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-BUDGET AND ACTUAL
PARKLAND DEDICATION FUND
For the Year Ended June 30, 2004
(In Thousands)

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts Budgetary Basis	Variance with Final Budget-Pos (Neg)
Revenues				
Licenses, permits and franchises	$ 219	219	1,353	1,134
Revenue from use of money and property	5	5	119	114
Total revenues	224	224	1,472	1,248
Expenditures				
Current:				
Recreational and cultural				
Parks & recreation parkland dedication	640	350	69	281
Total expenditures	640	350	69	281
Excess (deficiency) of revenues over (under) expenditures	(416)	(126)	1,403	1,529
Other financing sources (uses)				
Transfers (out)	(232)	(1,434)	(360)	1,074
Encumbrances, beginning of year	560	560	560	
Total other financing sources (uses)	328	(874)	200	1,074
Net change in fund balance	$ (88)	(1,000)	1,603	2,603

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-BUDGET AND ACTUAL COUNTY SERVICE DISTRICTS FUND
For the Year Ended June 30, 2004
(In Thousands)

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts Budgetary Basis	Variance with Final Budget- Pos (Neg)
Revenues				
Taxes	$ 2,211	2,211	2,725	514
Revenue from use of money and property	226	226	234	8
Aid from other governmental agencies:				
State	75	22	35	13
Other		53	80	27
Charges for current services	6,623	6,658	6,493	(165)
Other revenue			68	68
Total revenues	9,135	9,170	9,635	465
Expenditures				
Current:				
Public protection				
Sheriff	848	848	222	626
Public works	739	819	754	65
Public ways and facilities				
Public works	5,944	6,071	1,512	4,559
Health and sanitation				
Health & human services	4,410	4,300	4,244	56
Public works	91	91	32	59
Recreational and cultural				
Parks & recreations	2,215	2,223	953	1,270
Debt service	497	525	355	170
Total expenditures	14,744	14,877	8,072	6,805
Excess (deficiency) of revenues over (under) expenditures	(5,609)	(5,707)	1,563	7,270
Other financing sources (uses)				
Transfers in	208	2	2	
Transfers (out)	(546)	(539)	(1,108)	(569)
Long tem debt proceeds		289	66	(223)
Encumbrances, beginning of year	192	192	192	
Total other financing sources (uses)	(146)	(56)	(848)	(792)
Net change in fund balance	$ (5,755)	(5,763)	715	6,478

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-BUDGET AND ACTUAL FLOOD CONTROL DISTRICTS FUND For the Year Ended June 30, 2004 (In Thousands)

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget- Pos (Neg)
	Original	Final		
Revenues				
Taxes	$ 2,525	2,525	2,783	258
Revenue from use of money and property	110	110	206	96
Aid from other governmental agencies:				
State			39	39
Federal			1	1
Charges for current services	26	26	8	(18)
Other revenue	2,922	3,177	1,917	(1,260)
Total revenues	5,583	5,838	4,954	(884)
Expenditures				
Current:				
Public protection				
Public works flood control district	7,497	7,752	5,024	2,728
Total expenditures	7,497	7,752	5,024	2,728
Deficiency of revenues over (under) expenditures	(1,914)	(1,914)	(70)	1,844
Other financing sources (uses)				
Transfers (out)	(520)	(520)	(520)	
Encumbrances, beginning of year	1,358	1,358	1,358	
Total other financing sources (uses)	838	838	838	
Net change in fund balance	$ (1,076)	(1,076)	768	1,844

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-BUDGET AND ACTUAL HOUSING AUTHORITY FUND For the Year Ended June 30, 2004 (In Thousands)

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget-Pos (Neg)
	Original	Final		
Revenues	$			
Revenue from use of money and property			77	77
Aid from other governmental agencies:				
State	54	54		(54)
Federal	86,127	92,802	91,583	(1,219)
Other	1,443	1,443	50	(1,393)
Charges for current services	1,530	429	227	(202)
Other revenue	1,577	1,610	152	(1,458)
Total revenues	90,731	96,338	92,089	(4,249)
Expenditures				
Current:				
Public assistance				
Housing authority	96,654	99,224	96,904	2,320
Debt Service				
Principal			130	(130)
Interest			35	(35)
Total expenditures	96,654	99,224	97,069	2,155
Deficiency of revenues over (under) expenditures	(5,923)	(2,886)	(4,980)	(2,094)
Other financing sources (uses)				
Transfers in	5,308	2,194	1,577	(617)
Transfers Out			(411)	(411)
Sale of capital assets		50	575	525
Total other financing sources (uses)	5,308	2,244	1,741	(503)
Net change in fund balance	$ (615)	(642)	(3,239)	(2,597)

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-BUDGET AND ACTUAL
REALIGNMENT FUND
For the Year Ended June 30, 2004
(In Thousands)

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget- Pos (Neg)
	Original	Final		
Revenues				
Aid from other governmental agencies:				
State	$ 259,510	259,510	273,763	14,253
Total revenues	259,510	259,510	273,763	14,253
Excess of revenues over expenditures	259,510	259,510	273,763	14,253
Other financing sources (uses)				
Transfers (out)	(281,604)	(281,604)	(263,486)	18,118
Total other financing sources (uses)	(281,604)	(281,604)	(263,486)	18,118
Net change in fund balance	$ (22,094)	(22,094)	10,277	32,371

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-BUDGET AND ACTUAL
PUBLIC SAFETY FUND
For the Year Ended June 30, 2004
(In Thousands)

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget- Pos (Neg)
	Original	Final		
Revenues				
Aid from other governmental agencies:				
State	$ 191,438	191,438	201,214	9,776
Total revenues	191,438	191,438	201,214	9,776
Excess (deficiency) of revenues over expenditures	191,438	191,438	201,214	9,776
Other financing sources (uses)				
Transfers (out)	(191,805)	(191,805)	(191,805)	
Encumbrances, beginning of year	367	367	367	
Total other financing sources (uses)	(191,438)	(191,438)	(191,438)	
Net change in fund balance	$		9,776	9,776

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-BUDGET AND ACTUAL
IHSS PUBLIC AUTHORITY FUND
For the Year Ended June 30, 2004
(In Thousands)

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts Budgetary Basis	Variance with Final Budget-Pos (Neg)
Revenues	$			
Revenue from use of money and property			33	33
Total revenues			33	33
Expenditures				
Current:				
Public assistance				
Health & human services	8,919	8,898	6,679	2,219
Total expenditures	8,919	8,898	6,679	2,219
Excess (deficiency) of revenues over (under) expenditures	(8,919)	(8,898)	(6,646)	2,252
Other financing sources (uses)				
Transfers in	8,878	8,878	6,702	(2,176)
Encumbrances, beginning of year	41	41	41	
Total other financing sources (uses)	8,919	8,919	6,743	(2,176)
Net change in fund balance	$	21	97	76

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-BUDGET AND ACTUAL OTHER SPECIAL DISTRICTS FUND For the Year Ended June 30, 2004 (In Thousands)

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts Budgetary Basis	Variance with Final Budget-Pos (Neg)
Revenues				
Fines, forfeitures and penalties	$ 16	16	48	32
Revenue from use of money	50	50	19	(31)
Aid from other governmental agencies:				
State	276	276	30	(246)
Federal			1	1
Charges for current services	150	150	188	38
Total revenues	492	492	286	(206)
Expenditures				
Current:				
General				
Agriculture weights & measures fish & game	39	39	8	31
Public ways and facilities				
Public works special aviation	1,231	1,670	1,570	100
Debt service				
Total expenditures	1,270	1,709	1,578	131
Excess (deficiency) of revenues over (under) expenditures	(778)	(1,217)	(1,292)	(75)
Other financing sources (uses)				
Transfers (out)	(275)	(275)	(183)	92
Total other financing sources (uses)	(275)	(275)	(183)	92
Net change in fund balance	$ (1,053)	(1,492)	(1,475)	17

ENTERPRISE FUNDS

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the governing body has decided that periodic determination of net income is appropriate for accountability purposes.

Airport Fund
This fund is used to account for the maintenance, operations and development of County airports. A major objective of the airport program is to purchase and develop ariport property in order to create tax revenues and create jobs in the private sector.

Wastewater Management
This fund is used to account for operational services and support provided to sanitation districts governed by the Board of Supervisors.

COMBINING STATEMENT OF NET ASSETS
ENTERPRISE FUNDS
June 30, 2004
(In Thousands)

	Airport	Wastewater Management	Total
ASSETS			
Current assets:			
Equity in pooled cash and investments	$ 3,919	1,655	5,574
Collections in transit	656		656
Imprest cash	1	1	2
Accounts and notes receivable	1,096	1	1,097
Due from other funds	149	1,388	1,537
Advances to other funds	9,412		9,412
Total current assets	15,233	3,045	18,278
Capital assets:			
Land	9,588	20	9,608
Construction and contracts in progress	10,453		10,453
Buildings and equipment	35,408	915	36,323
Less accumulated depreciation	(18,961)	(491)	(19,452)
Total noncurrent assets	36,488	444	36,932
Total assets	51,721	3,489	55,210
LIABILITIES			
Current liabilities:			
Accounts payable	327	16	343
Accrued payroll	116	154	270
Due to other funds	1,111	152	1,263
Compensated absences	14	20	34
Deferred revenue	280		280
Bonds, notes, and loans payable	167		167
Total current liabilities	2,015	342	2,357
Noncurrent liabilities:			
Compensated absences	129	182	311
Bonds, notes, and loans payable	2,831		2,831
Total noncurrent liabilities	2,960	182	3,142
Total liabilities	4,975	524	5,499
NET ASSETS			
Invested in capital assets, net of related debt	33,489	444	33,933
Unrestricted	13,257	2,521	15,778
Total net assets	$ 46,746	2,965	49,711

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - ENTERPRISE FUNDS
For the Year Ended June 30, 2004
(In Thousands)

	Airport	Wastewater Management	Total
Operating revenues			
Charges for services	$ 6,734	5,447	12,181
Total operating revenue	6,734	5,447	12,181
Operating expenses			
Salaries	2,392	3,293	5,685
Repairs and maintenance	344	68	412
Equipment rental	282	380	662
Contracted services	1,463	853	2,316
Depreciation	767	24	791
Utilities	120	9	129
Other operating expenses	456	118	574
Total operating expenses	5,824	4,745	10,569
Operating income (loss)	910	702	1,612
Nonoperating revenues (expenses)			
Investment income	48	12	60
Grants	4,153		4,153
Interest expense	(177)		(177)
Other nonoperating expenses	(1,714)		(1,714)
Total nonoperating revenues (expenses)	2,310	12	2,322
Income (loss) before contributions and transfers	3,220	714	3,934
Capital contributions	856		856
Transfers in	9	15	24
Transfers (out)	(537)	(160)	(697)
Change in net assets	3,548	569	4,117
Total net assets--beginning	43,198	2,396	45,594
Total net assets--ending	$ 46,746	2,965	49,711

COMBINING STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
For the Year Ended June 30, 2004
(In Thousands)

(Cont)

	Airport	Wastewater Management	Total
Cash flows from operating activities:			
Cash received from customers	$ 6,829	4,702	11,531
Cash received from other funds	668	(253)	415
Other cash receipts	1,440		1,440
Cash payments to suppliers	(2,162)	(3,225)	(5,387)
Cash payments to employees	(2,323)	(1,140)	(3,463)
Cash payments to other funds	(564)		(564)
Net cash provided by operating activities	3,888	84	3,972
Cash flows from non-capital financing activities:			
Grants	4,408		4,408
Transfers from other funds	9	15	24
Transfers to other funds	(537)	(160)	(697)
Advances to other funds	225		225
Net cash provided by (used for) non-capital financing activities	4,105	(145)	3,960
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(8,713)		(8,713)
Capital contributions	856		856
Principal paid on long-term debt	(155)		(155)
Interest paid on long-term debt	(177)		(177)
Net cash used for capital and related financing activities	(8,189)		(8,189)
Cash flows from investing activities:			
Interest	51	12	63
Net decrease in cash & cash equivalents	(145)	(49)	(194)
Cash and cash equivalents - beginning of year	4,721	1,705	6,426
Cash and cash equivalents - end of year	4,576	1,656	6,232
Reconciliation of operating income (loss):			
Operating income (loss)	910	702	1,612
Other non operating revenues	1,440		1,440
Adjustments to reconcile:			
Increase (decrease) in compensated absences	24	23	47
Increase (decrease) in accrued payroll	45	47	92
Increase (decrease) in due to other funds	792	25	817
Increase (decrease) in accounts payable	(852)	8	(844)
Decrease (increase) in accounts receivable	(174)		(174)
Increase (decrease) in deferred revenue	268		268
Decrease (increase) in due from other funds	668	(745)	(77)
Depreciation	767	24	791
Net cash provided by operating activities	3,888	84	3,972
Non-cash investing and capital financing activities:			
Accrued interest	3		3
Capital acquisition included in accounts payable	168		168
Total non-cash investing and capital financing activities	$ 171		171

INTERNAL SERVICE FUNDS

Internal service funds are established to account for services furnished to other county departments and are financed primarily by these service charges. Because they are exempt from budgetary control, they are free to employ commercial accounting techniques, and are often used in situations where a more accurate determination of operating results is desired.

ROAD AND COMMUNICATION EQUIPMENT FUND
This fund was established to account for the financing of public works and communications equipment provided to other county departments on a cost reimbursement basis.

PURCHASING FUND
This fund accounts for the financing of materials and supplies provided to county departments and provides printing and record storage services; all on a cost reimbursement basis.

SPECIAL DISTRICT LOANS FUND
This fund was established to provide financing for start up services for new and existing county service districts on a cost reimbursement basis.

RISK FINANCING FUND
This fund was established to account for all of the county's uninsured risk management activities.

FLEET SERVICES FUND
This fund was established to account for the financing of General Services' Fleet vehicles provided to other County departments on a cost reimbursement basis.

FACILITIES MANAGEMENT FUND
This fund was established to account for the financing of public service utilities, property management, architectural and engineering services and mail services provided to other county departments on a cost reimbursement basis.

INFORMATION TECHNOLOGY FUND
This fund was established to account for the financing of software applications for human resources, payroll, and financial systems as well as telecommunication services provided to other county departments on a cost reimbursement basis.

OTHER MISCELLANEOUS FUND
This fund was established to provide for the financing of clothing and personal sundry items for persons institutionalized at various County facilities.

COMBINING STATEMENT OF NET ASSETS
INTERNAL SERVICE FUNDS
June 30, 2004
(In Thousands)

	Road and Communication Equipment	Purchasing	Special District Loans
ASSETS			
Current assets:			
Equity in pooled cash and investments	$ 12,687	2,561	441
Collections in transit	15		
Imprest cash		200	
Accounts receivable		5	
Due from other funds	223	725	4
Advances to other funds			461
Inventory of materials and supplies		234	
Total current assets	12,925	3,725	906
Capital assets:			
Contracts in progress			
Buildings and equipment	24,073	1,007	
Less accumulated depreciation	(12,504)	(654)	
Total noncurrent assets	11,569	353	
Total assets	24,494	4,078	906
LIABILITIES			
Current liabilities:			
Accounts payable	240	72	
Accrued payroll		331	
Accrued interest			
Due to other funds	662	105	
Claims and judgments			
Compensated absences		40	
Deferred Revenue			
Bonds, notes, and loans payable			
Total current liabilities	902	548	
Noncurrent liabilities:			
Compensated absences		357	
Bonds, notes, and loans payable			
Claims and judgments			
Total noncurrent liabilities		357	
Total liabilities	902	905	
NET ASSETS			
Invested in capital assets, net of related debt	11,569	353	
Unrestricted	12,023	2,820	906
Total net assets	$ 23,592	3,173	906

(Cont)

COMBINING STATEMENT OF NET ASSETS
INTERNAL SERVICE FUNDS
June 30, 2004
(In Thousands)

(Cont)

	Risk Financing	Fleet Services	Facilities Management
ASSETS			
Current assets:			
Equity in pooled cash and investments	$ 81,252	16,949	4,274
Collections in transit		52	22
Imprest cash			2
Accounts receivable		194	292
Due from other funds	3,786	928	5,457
Advances to other funds	296		
Inventory of materials and supplies		528	33
Total current assets	85,334	18,651	10,080
Capital assets:			
Contracts in progress			
Buildings and equipment		77,002	1,061
Less accumulated depreciation		(37,806)	(750)
Total noncurrent assets		39,196	311
Total assets	85,334	57,847	10,391
LIABILITIES			
Current liabilities:			
Accounts payable	2,070	1,754	2,399
Accrued payroll		206	986
Accrued interest		14	
Due to other funds	3,005	235	4,984
Claims and judgments	31,168		
Compensated absences		26	149
Deferred Revenue			43
Bonds, notes, and loans payable			115
Total current liabilities	36,243	2,235	8,676
Noncurrent liabilities:			
Compensated absences		240	1,340
Bonds, notes, and loans payable			1,863
Claims and judgments	66,621		
Total noncurrent liabilities	66,621	240	3,203
Total liabilities	102,864	2,475	11,879
NET ASSETS			
Invested in capital assets, net of related debt		39,196	311
Unrestricted	(17,530)	16,176	(1,799)
Total net assets	$ (17,530)	55,372	(1,488)

(Cont)

COMBINING STATEMENT OF NET ASSETS
INTERNAL SERVICE FUNDS
June 30, 2004
(In Thousands)

(Cont)

	Information Technology	Other Miscellaneous	Total
ASSETS			
Current assets:			
Equity in pooled cash and investments	$ 42,662	2,272	163,098
Collections in transit		129	218
Imprest cash			202
Accounts receivable	2,503		2,994
Due from other funds	8,600	8	19,731
Advances to other funds			757
Inventory of materials and supplies		68	863
Total current assets	53,765	2,477	187,863
Capital assets:			
Contracts in progress	47,053		47,053
Buildings and equipment		288	103,431
Less accumulated depreciation		(198)	(51,912)
Total noncurrent assets	47,053	90	98,572
Total assets	100,818	2,567	286,435
LIABILITIES			
Current liabilities:			
Accounts payable	9,578	260	16,373
Accrued payroll			1,523
Accrued interest			14
Due to other funds	44,076	234	53,301
Claims and judgments			31,168
Compensated absences			215
Deferred Revenue			43
Bonds, notes, and loans payable			115
Total current liabilities	53,654	494	102,752
Noncurrent liabilities:			
Compensated absences			1,937
Bonds, notes, and loans payable			1,863
Claims and judgments			66,621
Total noncurrent liabilities			70,421
Total liabilities	53,654	494	173,173
NET ASSETS			
Invested in capital assets, net of related debt	47,053	90	98,572
Unrestricted	111	1,983	14,690
Total net assets	$ 47,164	2,073	113,262

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - INTERNAL SERVICE FUNDS
For the Year Ended June 30, 2004
(IN THOUSANDS)

	Road and Communication Equipment	Purchasing	Special District Loans	Risk Financing
Operating revenues				
Charges for services	$ 4,731	22,318		35,498
Miscellaneous		211		11
Total operating revenue	4,731	22,529		35,509
Operating expenses				
Salaries		5,289		
Repairs and maintenance	2,297	206		
Equipment rental		216		
Contracted services	38	2,080		
Depreciation	1,742	103		
Utilities		158		
Cost of material		15,862		
Claims and judgments				29,096
Fuel	626	1		
Other operating expenses	209	203		
Total operating expenses	4,912	24,118		29,096
Operating income (loss)	(181)	(1,589)		6,413
Nonoperating revenues (expenses)				
Investment income	83	11		
Interest expense			(3)	
Grant revenue				
Loss on disposal of equipment	(82)	(48)		
Other non-operating expense		(71)		
Total nonoperating revenues (expenses)	1	(108)	(3)	
Income (loss) before contributions and transfers	(180)	(1,697)	(3)	6,413
Capital contributions		184		
Transfers in	167	1,950		
Transfers (out)	(1,230)	(253)		
Change in net assets	(1,243)	184	(3)	6,413
Total net assets--beginning	24,835	2,989	909	(23,943)
Total net assets--ending	$ 23,592	3,173	906	(17,530)

(Cont)

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - INTERNAL SERVICE FUNDS
For the Year Ended June 30, 2004
(In Thousands)

(Cont)

	Fleet Services	Mail, Print & Records	Facilities Management
Operating revenues			
Charges for services	$ 23,289		72,229
Miscellaneous			1,035
Total operating revenue	23,289		73,264
Operating expenses			
Salaries	4,644		21,855
Repairs and maintenance	3,903		16,793
Equipment rental	1		807
Contracted services	1,755		11,376
Depreciation	7,937		56
Utilities	294		19,606
Cost of material	1,642		
Claims and judgments			
Fuel	5,188		164
Other operating expenses	401		6,712
Total operating expenses	25,765		77,369
Operating income (loss)	(2,476)		(4,105)
Nonoperating revenues (expenses)			
Investment income	63		
Interest expense	(21)		
Grant revenue			43
Loss on disposal of equipment	(393)		(5)
Other non-operating expense			(63)
Total nonoperating revenues (expenses)	(351)		(25)
Income (loss) before contributions and transfers	(2,827)		(4,130)
Capital contributions			
Transfers in	1,179		3,476
Transfers (out)	(214)	(2,649)	(1,031)
Change in net assets	(1,862)	(2,649)	(1,685)
Total net assets--beginning	57,234	2,649	197
Total net assets--ending	$ 55,372		(1,488)

(Cont)

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - INTERNAL SERVICE FUNDS
For the Year Ended June 30, 2004
(In Thousands)

(Cont)

	Information Technology	Other Miscellaneous	Total
Operating revenues			
Charges for services	$ 106,204	3,663	267,932
Miscellaneous		110	1,367
Total operating revenue	106,204	3,773	269,299
Operating expenses			
Salaries			31,788
Repairs and maintenance		19	23,218
Equipment rental			1,024
Contracted services	112,013		127,262
Depreciation		31	9,869
Utilities			20,058
Cost of material		1,290	18,794
Claims and judgments			29,096
Fuel		1	5,980
Other operating expenses		875	8,400
Total operating expenses	112,013	2,216	275,489
Operating income (loss)	(5,809)	1,557	(6,190)
Nonoperating revenues (expenses)			
Investment income			157
Interest expense			(24)
Grant revenue			43
Loss on disposal of equipment			(528)
Other non-operating expense			(134)
Total nonoperating revenues (expenses)			(486)
Income (loss) before contributions and transfers	(5,809)	1,557	(6,676)
Capital contributions	2,286		2,470
Transfers in	1,569		8,341
Transfers (out)		(1,278)	(6,655)
Change in net assets	(1,954)	279	(2,520)
Total net assets--beginning	49,118	1,794	115,782
Total net assets--ending	$ 47,164	2,073	113,262

COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
For the Year Ended June 30, 2004
(In Thousands)

	Road and Communication Equipment	Purchasing	Special District Loans	Risk Financing
Cash flows from operating activities:				
Cash received from customers (including other funds)	$ 4,898	23,586	59	33,913
Other receipts				
Cash payments to suppliers	211	(19,030)		(24,899)
Cash payments to employees		(5,031)		
Internal activity-payments to other funds	(3,307)	(1,100)		(9,267)
Net cash provided by (used for) operating activities	1,802	(1,575)	59	(253)
Cash flows from non-capital financing activities:				
Grants				
Loan proceeds				
Transfers from other funds	167	1,485		
Transfers to other funds	(1,230)	(253)		
Advances from other funds			171	
Advances to other funds				
Net cash provided by (used for) non-capital financing activities	(1,063)	1,232	171	
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(1,875)			
Capital contributions				
Proceeds from sale of equipment	104			
Principal paid on long-term debt				
Interest paid on long-term debt			(3)	
Net cash used for capital and related financing activities	(1,771)		(3)	
Cash flows from investing activities:				
Interest	89	23		
Net increase (decrease) in cash & cash equivalents	(943)	(320)	227	(253)
Cash and cash equivalents - beginning of year	13,645	3,081	214	81,505
Cash and cash equivalents - end of year	12,702	2,761	441	81,252
Reconciliation of operating income (loss):				
Operating income (loss)	(181)	(1,589)		6,413
Adjustments to reconcile:				
Increase (decrease) in compensated absences		37		
Increase (decrease) in accrued payroll		226		
Increase (decrease) in due to other funds	(145)	52		(2,343)
Increase (decrease) in accounts payable	219	(1,461)		369
Increase (decrease) in claims and judgments				(2,705)
Decrease (increase) in accounts receivable	36	7		(285)
Decrease (increase) in inventory				
Increase (decrease) in deferred credits				
Decrease (increase) in due from other funds	131	1,050	59	(1,702)
Depreciation	1,742	103		
Net cash provided by (used for) operating activities	1,802	(1,575)	59	(253)
Non-cash investing and capital financing activities:				
Accrued interest	50	13		
Capital acquisition included in accounts payable	205			
Total non-cash investing and capital financing activities	$ 255	13		

(Cont)

COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
For the Year Ended June 30, 2004
(In Thousands)

(Cont)

		Fleet Services	Mail, Print & Records	Facilities Management
Cash flows from operating activities:				
Cash received from customers (including other funds)	$	23,194	637	68,665
Other receipts				(244)
Cash payments to suppliers		(8,647)	(37)	(45,175)
Cash payments to employees		(4,628)	(248)	(21,509)
Internal activity-payments to other funds		(3,499)	(52)	(9,345)
Net cash provided by (used for) operating activities		6,420	300	(7,608)
Cash flows from non-capital financing activities:				
Grants				43
Loan proceeds				1,977
Transfers from other funds		1,179		3,316
Transfers to other funds		(214)	(2,022)	(1,031)
Advances from other funds				
Advances to other funds				
Net cash provided by (used for) non-capital financing activities		965	(2,022)	4,305
Cash flows from capital and related financing activities:				
Acquisition of capital assets		(6,749)		(99)
Capital contributions				
Proceeds from sale of equipment		511		
Principal paid on long-term debt		(822)	(38)	
Interest paid on long-term debt		(21)		
Net cash used for capital and related financing activities		(7,081)	(38)	(99)
Cash flows from investing activities:				
Interest		77	16	
Net increase (decrease) in cash & cash equivalents		381	(1,744)	(3,402)
Cash and cash equivalents - beginning of year		16,620	1,744	7,700
Cash and cash equivalents - end of year		17,001		4,298
Reconciliation of operating income (loss):				
Operating income (loss)		(2,476)		(4,105)
Adjustments to reconcile:				
Increase (decrease) in compensated absences		(45)	(154)	83
Increase (decrease) in accrued payroll		62	(94)	301
Increase (decrease) in due to other funds		149	(52)	413
Increase (decrease) in accounts payable		888	(279)	478
Increase (decrease) in claims and judgments				(244)
Decrease (increase) in accounts receivable		(172)	87	(227)
Decrease (increase) in inventory			242	9
Increase (decrease) in deferred credits				(4,372)
Decrease (increase) in due from other funds		77	550	
Depreciation		7,937		56
Net cash provided by (used for) operating activities		6,420	300	(7,608)
Non-cash investing and capital financing activities:				
Accrued interest		14	16	
Capital acquisition included in accounts payable		1,141		
Total non-cash investing and capital financing activities	$	1,155	16	

(Cont)

COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
For the Year Ended June 30, 2004
(In Thousands)

(Cont)

		Information Technology	Other Miscellaneous	Total
Cash flows from operating activities:				
Cash received from customers (including other funds)	$	110,440	3,769	269,161
Other receipts				(244)
Cash payments to suppliers		(114,349)	(2,056)	(213,982)
Cash payments to employees				(31,416)
Internal activity-payments to other funds		(437)		(27,007)
Net cash provided by (used for) operating activities		(4,346)	1,713	(3,488)
Cash flows from non-capital financing activities:				
Grants				43
Loan proceeds				1,977
Transfers from other funds		1,569		7,716
Transfers to other funds			(1,278)	(6,028)
Advances from other funds				171
Advances to other funds				
Net cash provided by (used for) non-capital financing activities		1,569	(1,278)	3,879
Cash flows from capital and related financing activities:				
Acquisition of capital assets		(2,286)		(11,009)
Capital contributions		2,286		2,286
Proceeds from sale of equipment				615
Principal paid on long-term debt				(860)
Interest paid on long-term debt				(24)
Net cash used for capital and related financing activities				(8,992)
Cash flows from investing activities:				
Interest				205
Net increase (decrease) in cash & cash equivalents		(2,777)	435	(8,396)
Cash and cash equivalents - beginning of year		45,439	1,966	171,914
Cash and cash equivalents - end of year		42,662	2,401	163,518
Reconciliation of operating income (loss):				
Operating income (loss)		(5,809)	1,557	(6,190)
Adjustments to reconcile:				
Increase (decrease) in compensated absences				(79)
Increase (decrease) in accrued payroll				495
Increase (decrease) in due to other funds		(406)	55	(2,277)
Increase (decrease) in accounts payable		(2,367)	65	(2,088)
Increase (decrease) in claims and judgments				(2,949)
Decrease (increase) in accounts receivable		492	4	(58)
Decrease (increase) in inventory			9	260
Increase (decrease) in deferred credits				(4,372)
Decrease (increase) in due from other funds		3,744	(8)	3,901
Depreciation			31	9,869
Net cash provided by (used for) operating activities		(4,346)	1,713	(3,488)
Non-cash investing and capital financing activities:				
Accrued interest				93
Capital acquisition included in accounts payable				1,346
Total non-cash investing and capital financing activities	$			1,439

PROPERTY TAX COLLECTION FUNDS
These funds are used for recording the collection and distribution of property taxes.

OTHER AGENCY FUNDS
These funds maintain assets held in an agent capacity for other governments, organizations and individuals. These assets do not support the county's programs or services. Any portion of agency fund assets held at fiscal year end for other funds are reported in those funds rather than in the agency funds.

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
For the Year Ended June 30, 2004
(In Thousands)

PROPERTY TAX COLLECTION FUNDS		Beginning Balance	Additions	Deductions	Ending Balance
ASSETS					
Equity in pooled cash and investments	$	49,701	11,379,227	11,360,963	67,965
Cash with fiscal agents			51,990	51,899	91
Collections in transit		12,014	10,635	12,143	10,506
Taxes receivable		133,259	3,755,402	3,687,617	201,044
Accounts receivable			545,170	545,170	
Due from other funds		720	143,875	143,678	917
Total assets		195,694	15,886,299	15,801,470	280,523
LIABILITIES					
Accounts payable			580,293	580,293	
Due to other funds		5,254	145,318	134,639	15,933
Due to other governments		190,440	13,914,048	13,839,898	264,590
Total liabilities	$	195,694	14,639,659	14,554,830	280,523

OTHER AGENCY FUNDS		Beginning Balance	Additions	Deductions	Ending Balance
ASSETS					
Equity in pooled cash and investments	$	307,803	16,622,333	16,570,362	359,774
Cash with fiscal agents		9,982	63,119	59,843	13,258
Collections in transit		3,553	4,303	3,548	4,308
Imprest cash		5		1	4
Investments		1	37,181,985	37,181,986	
Taxes receivable		61,736	46,101	46,736	61,101
Accounts receivable		15,322	59,359	59,665	15,016
Due from other funds		324	6,190	2,089	4,425
Total assets		398,726	53,983,390	53,924,230	457,886
LIABILITIES					
Accounts payable		651	1,234,856	1,235,507	
Due to other funds		59,571	11,732,404	11,746,078	45,897
Due to other governments		276,768	2,895,405	2,821,285	350,888
Amount due for commercial paper notes		61,736	46,101	46,736	61,101
Total liabilities	$	398,726	15,908,766	15,849,606	457,886

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
Year Ended June 30, 2004
(In Thousands)

	Beginning Balance	Additions	Deductions	Ending Balance
TOTAL AGENCY FUNDS				
ASSETS				
Equity in pooled cash and investments	$ 357,504	28,001,560	27,931,325	427,739
Cash with fiscal agents	9,982	115,109	111,742	13,349
Collections in transit	15,567	14,938	15,691	14,814
Imprest cash	5		1	4
Investments	1	37,181,985	37,181,986	
Taxes receivable	194,995	3,801,503	3,734,353	262,145
Accounts receivable	15,322	604,529	604,835	15,016
Due from other funds	1,044	150,065	145,767	5,342
Total assets	594,420	69,869,689	69,725,700	738,409
LIABILITIES				
Accounts payable	651	1,815,149	1,815,800	
Due to other funds	64,825	11,877,722	11,880,717	61,830
Due to other governments	467,208	16,809,453	16,661,183	615,478
Amount due for commercial paper notes	61,736	46,101	46,736	61,101
Total liabilities	$ 594,420	30,548,425	30,404,436	738,409

APPENDIX C

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following summary discussion of selected provisions of the Refunding Lease, the Refunding Sublease, the Assignment Agreement and the Trust Agreement are made subject to all of the provisions of such documents. This summary discussion does not purport to be a complete statement of said provisions and prospective purchasers of the Certificates are referred to the complete texts of said documents, copies of which are available upon request sent to the Trustee.

Definitions

"Additional Certificates" means the certificates of participation authorized by a Supplemental Trust Agreement that are executed and delivered by the Trustee under and pursuant to the Trust Agreement.

"Additional Rental" means the additional rental payments payable by the County under and pursuant to the Refunding Sublease.

"Administrative Expense Fund" means the fund by that name established in accordance with the Trust Agreement.

"Annual Debt Service" means, for each Lease Year, an amount equal to the sum of all Base Rental Payments due in such Lease Year.

"Assignment Agreement" means that certain Assignment Agreement, dated as of August 1, 2005, by and between the Corporation and the Trustee, as it may from time to time be amended.

"Auditor and Controller" means the person holding the office of Auditor and Controller of the County, including any Acting or Interim Auditor and Controller.

"Authorized Denominations" means $5,000 or any integral multiple thereof.

"Average Annual Debt Service" means an amount equal to the average of the Annual Debt Service for all Lease Years, including the Lease Year in which the calculation is made.

"Base Rental Payment Fund" means the fund by that name established in accordance with the Trust Agreement.

"Base Rental Payments" means the aggregate base rental payments with interest components and principal components payable by the County under and pursuant to the Refunding Sublease in the amounts and at the times set forth therein.

"Beneficial Owner" shall have the meaning set forth in the Continuing Disclosure Agreement.

"Business Day" means a day other than (i) Saturday or Sunday or (ii) a day on which banking institutions in Los Angeles, California, New York, New York, or the city or cities in which the principal corporate trust office of the Trustee are closed or (iii) a day on which the New York Stock Exchange is closed. If the date for making any payment or the last date for performance of any act or the exercising of any right, as provided in the Trust Agreement, shall not be a Business Day, such payment may be made or act performed or right exercised on the next succeeding Business Day, with the same force and effect as if done on the nominal date provided in the Trust Agreement, and, unless otherwise specifically provided in the Trust Agreement, no interest shall accrue for the period from and after such nominal date.

"Certificate of the Corporation" means an instrument in writing signed by the Chair or the Treasurer of the Corporation. If and to the extent required by the provisions of the Trust Agreement, each Certificate of the Corporation shall include the statements provided for in the Trust Agreement.

"Certificate of the County" means an instrument in writing signed by the Chief Financial Officer. If and to the extent required by the provisions of the Trust Agreement, each Certificate of the County shall include the statements provided for in the Trust Agreement.

"Certificate Reserve Fund" means the fund by that name established in accordance with the Trust Agreement.

"Certificate Reserve Fund Requirement" means, as of any date of calculation, the lesser of (i) the Maximum Annual Debt Service, (ii) 10% of the proceeds of the Certificates and any Additional Certificates, in accordance with the Tax Certificate to be made by the County under the Refunding Sublease until the final maturity of the Outstanding Certificates, or (iii) 125% of Average Annual Debt Service.

"Certificates" or **"2005 Certificates"** means the County of San Diego Certificates of Participation (North and East County Justice Facilities Refunding) executed and delivered by the Trustee pursuant to the Trust Agreement.

"Certificates of Participation Purchase Contract" means that certain Purchase Contract, dated August 25, 2005, by and between the Purchasers and the County relating to the Certificates.

"Chief Financial Officer" means the person holding the office of Chief Financial Officer of the County, including any Acting or Interim Chief Financial Officer.

"Closing Date" means the date payment is received by the Trustee of the aggregate purchase price of the 2005 Certificates.

"Code" means the Internal Revenue Code of 1986, as amended.

"Continuing Disclosure Agreement" means that certain Continuing Disclosure Agreement between the County and the Dissemination Agent dated the date of execution and delivery of the Certificates, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

"Corporation" means the San Diego County Capital Asset Leasing Corporation, a nonprofit public benefit corporation duly organized and existing under and by virtue of the laws of the State of California.

"Cost of Issuance Fund" means the fund by that name established in accordance with the Trust Agreement.

"Costs of Issuance" means all the costs of executing and delivering the Certificates, including, but not limited to, all printing and document preparation expenses in connection with the Trust Agreement, the Refunding Lease, the Refunding Sublease, the Assignment Agreement, the Certificates and the preliminary official statement and final official statement pertaining to the Certificates; rating agency fees; financial advisor fees; title insurance fees; CUSIP Service Bureau charges; market study fees; legal fees and expenses of counsel with respect to the lease of the Refunding Property and the refunding of the Prior Obligations; any computer and other expenses incurred in connection with the Certificates; the fees and expenses of the Trustee, the Prior Trustee, including fees and expenses of their respective counsel; and other fees and expenses incurred in connection with the execution of the Certificates or the implementation of the refunding of the Prior Obligations, to the extent such fees and expenses are approved by the County.

"County" means the County of San Diego, a political subdivision duly organized and existing under the Constitution and laws of the State of California.

"Defeasance Securities" means any of the following:

(1) Cash (insured at all times by the Federal Deposit Insurance Corporation),

(2) Obligations of, or obligations guaranteed as to principal and interest by, the U.S. or any agency or instrumentality thereof, when such obligations are backed by the full faith and credit of the U.S. including:

- U.S. treasury obligations;
- All direct or fully guaranteed obligations
- Farmers Home Administration
- General Services Administration
- Guaranteed Title XI financing
- Government National Mortgage Association (GNMA); and
- State and Local Government Series

"DTC" means The Depository Trust Company, New York, New York, a limited-purpose trust company organized under the laws of the State of New York, and its successors as securities depository for the Certificates including any such successor appointed pursuant to the Trust Agreement.

"Earnings Fund" means the fund by that name established in accordance with the Trust Agreement.

<u>Escrow Agent</u>

The term "Escrow Agent" means U.S. Bank National Association, successor to State Street Bank and Trust Company of California, N.A., acting as the Prior Trustee under the Prior Trust Agreement.

<u>Escrow Agreement</u>

The term "Escrow Agreement" means that certain Escrow Agreement dated as of August 1, 2005, by and between the County and the Prior Trustee as Escrow Agent providing for the defeasance and redemption of the Prior Obligations.

"Event of Default" means (1) with respect to any Event of Default under the Trust Agreement, any occurrence or event specified in and defined by the provisions of the Trust Agreement under the caption "Trust Agreement—Default and Limitations of Liability—Events of Default" below, and (2) with respect to any Event of Default under the Refunding Sublease, any occurrence or event specified in and defined by the provisions of the Refunding Sublease under the caption "Refunding Sublease—Default" below.

"Expiry Date" means May 15, 2019.

"Bond Insurance Policy" means the Bond Insurance Policy issued by the Insurer insuring the payment when due of the principal and interest with respect to the Certificates as provided therein.

"Financial Newspaper" means The Wall Street Journal or The Bond Buyer or, if neither such newspaper is being regularly published, any other newspaper or journal publishing financial news and selected by the County that is printed in the English language, is customarily published on each Business Day and is circulated in Los Angeles, California and New York, New York.

"Fitch" means Fitch IBCA, Inc., or any successor credit rating agency selected by the County.

"Hazardous Substances" means any substances, pollutants, wastes and contaminants now or hereafter included in such (or similar term) term under any federal state or local statute, ordinance, code or regulation now existing or hereafter enacted or amended.

"Insurance Proceeds and Condemnation Awards Fund" means the fund by that name established in accordance with the Trust Agreement.

"Insurer" means Ambac Assurance Corporation, a Wisconsin domiciled stock insurance company.

"Interest Fund" means the fund by that name established in accordance with the Trust Agreement.

"Interest Payment Date" means May 15, 2006 and each May 15 and November 15, thereafter.

"Interest Period" means each period from and including one Interest Payment Date to but excluding the next following Interest Payment Date, except that the initial Interest Period will be the period from and including the Closing Date, to but excluding May 15, 2006.

"Lease Year" means the period from each November 15 to and including the following November 14 during the term of the Trust Agreement and the Refunding Sublease.

"Mandatory Sinking Account Payment" means the principal amount of any Certificates or Additional Certificates required to be paid on each Mandatory Sinking Account Payment Date pursuant to the terms of this Agreement or any Supplemental Trust Agreement.

"Mandatory Sinking Account Payment Date," if applicable, means November 15 of each year set forth in the Trust Agreement and in any Supplemental Trust Agreement.

"Maximum Annual Debt Service" means an amount equal to the largest Annual Debt Service for all future Lease Years beginning in the Lease Year in which the calculation is made.

"Moody's" means Moody's Investors Service, Inc., or any successor credit rating agency selected by the County.

"**Opinion of Counsel**" means a written opinion of counsel of recognized national standing in the field of law relating to municipal bonds, appointed and paid by the County.

"**Outstanding**" when used as of any particular time with reference to Certificates and Additional Certificates, means all Certificates and Additional Certificates, including, but not limited to, the Certificates as described in the Trust Agreement, except:

(1) Certificates and Additional Certificates previously canceled by the Trustee or delivered to the Trustee for cancellation;

(2) Certificates and Additional Certificates which pursuant to the Trust Agreement are not deemed outstanding;

(3) Certificates and Additional Certificates paid or deemed to have been paid within the meaning of the Trust Agreement; and

(4) Certificates and Additional Certificates in lieu of or in substitution for which other Certificates or Additional Certificates shall have been executed and delivered by the Trustee pursuant to the Trust Agreement.

"**Owner**" means any person who shall be the registered owner of any Outstanding Certificate or Additional Certificate as indicated in the registration books of the Trustee.

"Permitted Encumbrances" means, with respect to the Refunding Sublease as of any particular time: (i) liens for general *ad valorem* taxes and assessments, if any, not then delinquent, or which the County may, pursuant to the Refunding Sublease permit to remain unpaid; (ii) the Assignment Agreement, as it may be amended from time to time; (iii) the Refunding Sublease as it may be amended from time to time; (iv) the Refunding Lease as it may be amended from time to time; (v) any right or claim of any mechanic, laborer, materialman, supplier or vendor not filed or perfected in the manner prescribed by law; (vi) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions, all of a non-monetary nature, which exist of record as of the date of initial delivery of the Certificates; and (vii) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions, all of a non-monetary nature, established following the date of recordation of the Refunding Sublease and to which the Corporation and the County consent in writing.

"**Permitted Investments**" means any of the following to the extent then permitted by applicable laws and any investment policies of the County:

(1) Defeasance Securities;

(2) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including:

—Export-Import Bank;

—Rural Economic Community Development Administration;

—U.S. Maritime Administration;

—Small Business Administration;

—U.S. Department of Housing & Urban Development (PHAs);

—Federal Housing Administration; and

—Federal Financing Bank.

(3) Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America:

—Senior debt obligations issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC);

—Obligations of the Resolution Funding Corporation (REFCORP);

—Senior debt obligations of the Federal Home Loan Bank System; and

—Senior debt obligations of other Government Sponsored Agencies approved by the Insurer.

(4) U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of "P-1" by Moody's and "A-1" or "A-1+" by S&P and maturing not more than 360 calendar days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank).

(5) Commercial paper which is rated at the time of purchase in the single highest classification, "P-1" by Moody's and "A-1+" by S&P and which matures not more than 270 calendar days after the date of purchase.

(6) Investments in a money market fund rated "AAAm" or "AAAm-G" or better by S&P.

(7) Pre-refunded Municipal Obligations defined as follows: any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and

(A) which are rated, based on an irrevocable escrow account or fund (the "escrow"), in the highest rating category of Moody's or S&P or any successors thereto; or

(B) (i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in clause (2) of the definition of "Defeasance Securities" contained in the Trust Agreement, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate;

(8) Municipal Obligations rated "Aaa/AAA" or general obligations of States with a rating of "A2/A" or higher by both Moody's and S&P.

(9) Investment Agreements approved in writing by the Insurer (supported by appropriate opinions of counsel);

(10) The Sand Diego County Investment Pool; and

(11) Other forms of investments (including repurchase agreements) approved in writing by the Insurer.

Any references to long-term rating categories in this definition of "Permitted Investments" shall not take into account any plus or minus sign or numerical modifiers.

"**Prepayment Fund**" means the fund by that name established in accordance with the Trust Agreement.

"Prior Obligations" means the County of San Diego Certificates of Participation (1996 North County Regional Center Expansion and East County Courthouse Detention Facility Conversion), executed and delivered on December 17, 1996 in the principal amount of $37,690,000 pursuant to the Prior Trust Agreement, and secured by rental payments made by the County pursuant to that certain Lease Agreement, dated as of December 1, 1996.

"**Prior Trust Agreement**" means that Trust Agreement, dated as of December 1, 1996, between the Corporation and the Prior Trustee, pursuant to which the Prior Obligations were executed and delivered.

"**Prior Trustee**" means U.S. Bank National Association, as successor trustee under the Prior Trust Agreement.

"**Principal Corporate Trust Office**" means the corporate trust office of the Trustee at the address set forth in the Trust Agreement, except for purposes of payment, registration, transfer, exchange and surrender of Certificates, means the corporate trust office of the Trustee in Los Angeles, California, or such other office specified by the Trustee.

"**Principal Fund**" means the fund by that name established in accordance with the Trust Agreement.

"**Principal Payment**" means the principal amount of Certificates required to be paid on each Principal Payment Date.

"**Principal Payment Date**" means November 15 of each year, commencing November 15, 2006.

"**Purchasers**" means E.J. De La Rosa & Co., Inc. and UBS Financial Services Inc., as underwriters and purchasers of the Certificates pursuant to the Certificates of Participation Purchase Contract.

"**Rebate Requirement**" means the Rebate Requirement as defined in the Tax Certificate.

"**Record Date**" means the close of business on the 1st day of the month preceding any Interest Payment Date, whether or not such day is a Business Day.

"**Refunding Lease**" means that certain Refunding Lease, dated as of August 1, 2005, with respect to the Refunding Property, by and between the County, as lessor, and the Corporation, as lessee, as originally executed and as it may be amended from time to time.

"**Refunding Property**" means the real property and all the improvements thereon or to be located thereon described in the Refunding Sublease (as the same may be changed from time to time by Removal or Substitution, as defined in the Refunding Sublease).

"**Refunding Sublease**" means that certain Refunding Sublease, dated as of August 1, 2005, with respect to the Refunding Property, by and between the County, as sublessee, and the Corporation, as sublessor, as originally executed and as it may be amended from time to time.

"Removal" means the release of all or a portion of the Refunding Property from the leasehold of the Refunding Sublease and of the Refunding Lease as provided in the Refunding Sublease.

"**Rental Payments**" means, collectively, the Base Rental Payments and the Additional Rental.

"**Representation Letter**" means the Letter of Representations from the County and the Trustee to DTC, or any successor securities depository for the Certificates, in which the County and the Trustee make certain representations with respect to the Certificates, the payment with respect thereto and delivery of notices with respect thereto.

"**Reserve Fund Credit Facility**" shall mean a letter of credit, line of credit, surety bond, insurance policy or similar facility deposited in the Certificate Reserve Fund in lieu of or in partial substitution for cash or securities on deposit therein.

"**S&P**" means Standard & Poor's Ratings Services, or any successor credit rating agency selected by the County.

"Substitution" means the release of all or a portion of the Refunding Property from the leasehold of the Refunding Sublease and of the Refunding Lease and the lease of substituted real property and improvements thereunder as provided in the Refunding Sublease.

"**Supplemental Trust Agreement**" means an agreement amending or supplementing the terms of the Trust Agreement entered into pursuant to the terms thereof.

"Surety Bond" means the surety bond issued by the Insurer guaranteeing certain payments into the Base Rental Payment Fund with respect to the Certificates as provided therein and subject to the limitations set forth therein.

"**Surplus Subaccount**" means the account by that name established in accordance with the Trust Agreement.

"**Tax Certificate**" means that tax certificate executed by the County at the time of execution and delivery of the Certificates relating to the requirements of Section 148 of the Code, as such certificate may be amended or supplemented.

"**Term Certificates**" means any Certificates or Additional Certificates which are subject to prepayment prior to their stated maturity dates from Mandatory Sinking Account Payments.

"**Trust Agreement**" means the Trust Agreement by and among the Trustee, the County and the Corporation, dated as of August 1, 2005, as originally executed and as it may from time to time be amended or supplemented in accordance with the Trust Agreement.

"**Trustee**" means Zions First National Bank, a national banking association duly organized and existing under and by virtue of the laws of the United States of America and having a principal corporate trust office located at Los Angeles, California, or any other bank or trust company which may at any time be substituted in its place as provided in the Trust Agreement.

"**Written Request of the County**" means an instrument in writing signed by the Chief Financial Officer, County Treasurer-Tax Collector, the Capital Finance Manager or other officers who are specifically authorized by resolution of Board of Supervisors of the County to sign or execute such a document on its behalf, as reflected in a Certificate of the County to such effect delivered to the Trustee.

REFUNDING SUBLEASE

The Refunding Property

Lease of the Refunding Property. The Corporation leases to the County, and the County rents and hires from the Corporation, the Refunding Property on the conditions and terms set forth in the Refunding Sublease. The County agrees and covenants that during the term of the Refunding Sublease, except as provided in Refunding Sublease, it will use the Refunding Property for public purposes so as to afford the public the benefits contemplated by the Refunding Sublease and so as to permit the Corporation to carry out its agreements and covenants contained in the Refunding Sublease and in the Trust Agreement, and the County further agrees and covenants that during the term of the Refunding Sublease that it will not abandon or vacate the Refunding Property.

Quiet Enjoyment. The parties to the Refunding Sublease mutually covenant that the County, so long as it observes and performs the agreements, conditions, covenants and terms required to be observed or performed by it contained in the Refunding Sublease and is not in default under the Refunding Sublease, shall at all times during the term of the Refunding Sublease peaceably and quietly have, hold and enjoy the Refunding Property without suit, trouble or hindrance from the Corporation.

Right of Entry and Inspection. The Corporation shall have the right to enter the Refunding Property and inspect the Refunding Property during reasonable business hours (and in emergencies at all times) for any purpose connected with the Corporation's rights or obligations under the Refunding Sublease and for all other lawful purposes.

Prohibition Against Encumbrance or Sale. The County and the Corporation will not create or suffer to be created any mortgage, pledge, lien, charge or encumbrance upon the Refunding Property, except Permitted Encumbrances, and except incident to the execution and delivery of Additional Certificates as contemplated by the Refunding Sublease. The County and the Corporation will not sell or otherwise dispose of the Refunding Property or any property essential to the proper operation of the Refunding Property, except as otherwise provided in the Refunding Sublease. Notwithstanding anything to the contrary contained in the Refunding Sublease, with the consent of the Insurer, which will not be unreasonably withheld, the County may assign, transfer or sublease any and all of the Refunding Property or its other rights under the Refunding Sublease, provided that (a) the rights of any assignee, transferee or sublessee shall be subordinate to all rights of the Corporation under the Refunding Sublease, (b) no such assignment, transfer or sublease shall relieve the County of any of its obligations under the Refunding Sublease, (c) the assignment, transfer or sublease shall not result in a breach of any covenant of the County contained in the Refunding Sublease, (d) any such assignment, transfer or sublease shall by its terms expressly provide that the fair rental value of the Refunding Property for all purposes shall be first allocated to the Refunding Sublease, as the same may be amended from time to time before or after any such assignment, transfer or sublease and (e) no such assignment, transfer or sublease shall confer upon the parties thereto any remedy which allows reentry upon the Refunding Property unless concurrently with granting such remedy the same shall be also granted under the Refunding Sublease by an amendment to the Refunding Sublease which shall in all instances be prior to and superior to any such assignment, transfer or sublease.

Liens. In the event the County shall at any time during the term of the Refunding Sublease cause any improvements to the Refunding Property to be constructed or materials to be supplied in or upon or attached to the Refunding Property, the County shall pay or cause to be paid when due all sums of money that may become due or purporting to be due for any labor, services, materials, supplies or equipment furnished or alleged to have been furnished to or for the County in, upon, about or relating to the Refunding Property and shall keep the Refunding Property free of any and all liens against the Refunding Property or the Corporation's interest therein. In the event any such lien attaches to or is filed against the Refunding Property or the Corporation's interest therein, and the enforcement thereof is not stayed or if so stayed such stay thereafter expires, the County shall cause each such lien to be fully discharged and released at the time the performance of any obligation secured by any such lien matures or becomes due. If any such lien shall be reduced to final judgment and such judgment or any process as may be issued for the enforcement thereof is not promptly stayed, or if so stayed and such stay thereafter expires, the County shall forthwith pay and discharge or cause to be paid and discharged such judgment. The County shall, to the maximum extent permitted by law, indemnify and hold the Corporation and its assignee and its directors, officers and employees harmless from, and defend each of them against, any claim, demand, loss, damage, liability or expense (including attorneys' fees) as a result of any such lien or claim of lien against the Refunding Property or the Corporation's interest therein.

Substitution or Removal of Refunding Property.

(a) The County may amend the Refunding Sublease and the Refunding Lease to substitute other real property and/or improvements (the "Substituted Property") for existing Refunding Property and/or to remove real property (including undivided interests therein) and/or improvements from the definition of Refunding Property, with the consent of the Insurer, and upon compliance with all of the conditions set forth in subsection (b) below. After a Substitution or Removal, the part of the Refunding Property for which the Substitution or Removal has been effected shall be released from the leasehold under the Refunding Sublease and under the Refunding Lease.

(b) No Substitution or Removal shall take place under the Refunding Sublease until the County delivers to the Corporation and the Trustee the following:

(1) A Certificate of the County containing a description of all or part of the Refunding Property to be released and, in the event of a Substitution, a description of the Substituted Property to be substituted in its place;

(2) A Certificate of the County (A) stating that the annual fair rental value of the Refunding Property after a Substitution or Removal, in each year during the remaining term of the Refunding Sublease, is at least equal to the maximum annual Base Rental Payments payable under the Refunding Sublease attributable to the Refunding Property prior to said Substitution or Removal, as determined by the County on the basis of an appraisal of the Refunding Property after said Substitution or Removal conducted by a member of the Appraisal Institute of America (MAI) designated by the County; (B) demonstrating that the useful life of the Refunding Property after Substitution or Removal equals or exceeds the remaining term of the Refunding Sublease;

and (C) stating that the Refunding Property after a Substitution or Removal is as essential to the operations of the County as was the Refunding Property immediately prior to such Substitution or Removal;

(3) An Opinion of Counsel to the effect that the amendments to the Refunding Sublease and to the Refunding Lease contemplating Substitution or Removal have been duly authorized, executed and delivered and constitute the valid and binding obligations of the County and the Corporation enforceable in accordance with their terms;

(4) (A) In the event of a Substitution, a policy of title insurance in an amount equal to the principal portion of the then-remaining Base Rental Payments payable under the Refunding Sublease multiplied by a fraction, the numerator of which is that portion of the principal portion of the then-remaining Base Rental Payments payable under the Refunding Sublease attributable to the Substituted Property and the denominator of which is the principal portion of the then-remaining Base Rental Payments payable under the Refunding Sublease, insuring the County's leasehold interest in the Substituted Property (except any portion thereof which is not real property) subject only to Permitted Encumbrances, together with an endorsement thereto making said policy payable to the Trustee for the benefit of the Owners of the Certificates and any Additional Certificates, and (B) in the event of a partial Removal, evidence that the title insurance in effect immediately prior thereto is not affected;

(5) In the event of a Substitution, an opinion of the County Counsel of the County to the effect that the exceptions, if any, contained in the title insurance policy referred to in (4) above do not interfere with the beneficial use and occupancy of the Substituted Property described in such policy by the County for the purposes of leasing or using the Substituted Property;

(6) An Opinion of Counsel that the Substitution or Removal does not cause the interest with respect to the Certificates and any Additional Certificates to be includable in gross income of the Owners thereof for federal income tax purposes;

(7) Evidence that the County has complied with the covenants contained in the Refunding Sublease regarding insurance requirements with respect to the Substituted Property; and

(8) Evidence that the Substitution or Removal, in and of itself, has not or will not cause a downgrade or withdrawal of the then existing credit ratings on the Certificates and any Additional Certificates.

Term of the Sublease

<u>Commencement of the Sublease</u>. The effective date of the Refunding Sublease is the Closing Date, and the term of the Refunding Sublease shall end on the Expiry Date, unless such term is extended or sooner terminated as provided in the Refunding Sublease. If on the Expiry Date, the rental payable under the Refunding Sublease shall not be fully paid and all Certificates and Additional Certificates shall not be fully paid and retired, or if the rental payable under the Refunding Sublease shall have been abated at any time and for any reason, then the term of the Refunding Sublease shall be extended until ten days after the rental payable under the Refunding Sublease shall be fully paid and all Certificates and Additional Certificates shall be fully paid, except that the term of the Refunding Sublease shall in no event be extended beyond November 15, 2029. If prior to the Expiry Date, the rental payable under the Refunding Sublease shall be fully paid and all Certificates and Additional Certificates shall have been

fully paid, or deemed fully paid, in accordance with the Trust Agreement, the term of the Refunding Sublease shall end ten days thereafter or ten days after written notice by the County to the Corporation to the effect that the rental payable under the Refunding Sublease shall be fully paid and all Certificates and Additional Certificates have been fully paid, whichever is earlier, and the Refunding Sublease shall thereupon terminate.

Use of Proceeds; Tax Covenants

Use of Proceeds. The parties to the Refunding Sublease agree that the proceeds of the Certificates will be used to refund and defease the Prior Obligations, to fund a Reserve and to pay the costs of executing and delivering the Certificates and incidental and related expenses.

Tax Covenants.

(a) The County will not take any action, or fail to take any action, if such action or failure to take such action would adversely affect the exclusion from gross income of the interest evidenced and represented by the Certificates and any Additional Certificates pursuant to Section 103 of the Code, and specifically the County will not directly or indirectly use or make any use of the proceeds of the Certificates and any Additional Certificates or any other funds of the County or take or omit to take any action that would cause the Certificates or any Additional Certificates to be “arbitrage bonds” subject to federal income taxation by reason of Section 148 of the Code or “private activity bonds” subject to federal income taxation by reason of Section 141(a) of the Code or obligations subject to federal income taxation because they are “federally guaranteed” as provided in Section 149(b) of the Code; and to that end the County, with respect to the proceeds of the Certificates and any Additional Certificates and such other funds, will comply with all requirements of such sections of the Code to the extent that such requirements are, at the time, applicable and in effect; *provided,* that if the County shall obtain an Opinion of Counsel to the effect that any action required under this section is no longer required, or to the effect that some further action is required, to maintain the exclusion from gross income of the interest evidenced and represented by the Certificates and any Additional Certificates pursuant to Section 103 of the Code, the County may rely conclusively on such opinion in complying with the provisions of the Refunding Sublease. In the event that at any time the County is of the opinion that for purposes of this section it is necessary to restrict or limit the yield on the investment of any moneys held by the Trustee under the Trust Agreement or otherwise the County shall so instruct the Trustee in writing, and the Trustee shall take such action in accordance with such instructions.

(b) To the ends covenanted in this section, the County specifically agrees to ensure that the following requirements are met:

(1) The County will not invest or allow to be invested proceeds of the Certificates or any Additional Certificates at a yield in excess of the yield on the Certificates and such Additional Certificates, except to the extent allowed under the Tax Certificate.

(2) The County will rebate or cause to be rebated any amounts due to the federal government, as provided in the Tax Certificate.

Rental Payments

Rental Payments. The County agrees to pay to the Corporation, its successors or assigns, without deduction or offset of any kind, as rental for the use and occupancy of the Refunding Property, the following amounts at the following times:

(a) *Base Rental*. The County shall pay to the Corporation rental under the Refunding Sublease as Base Rental Payments with respect to the Refunding Property at the times and in the amounts set forth in the Base Rental Payment Schedules attached to the Refunding Sublease and made a part thereof, a portion of which Base Rental Payments shall constitute interest. Notwithstanding the dates designated for the payment of the Base Rental Payments under the Refunding Sublease other than the Base Rental Payment due and payable on May 15, 2006, all Base Rental Payments due in any Fiscal Year shall be due and payable in one sum on July 5 of each year (or the next Business Day if July 5 does not fall on a Business Day), commencing on July 5, 2006. Failure of the County to comply with the provisions of this section shall constitute an event of default under the Refunding Sublease. The interest components of the Base Rental Payments shall be paid by the County as and constitute interest paid on the principal components of the Base Rental Payments to be paid by the County under the Refunding Sublease. Notwithstanding the foregoing, each Base Rental Payment shall be paid by wire transfer to the Corporation or its assignee not later than one Business Day preceding its due date.

(b) *Additional Rental*. The County shall also pay, as rental under the Refunding Sublease in addition to the Base Rental Payments, to the Corporation or the Trustee, as provided in the Refunding Sublease, such amounts ("Additional Rental") in each year as shall be required for the payment of all costs and expenses incurred by the Corporation in connection with the execution, performance or enforcement of the Refunding Sublease or the assignment of the Refunding Sublease, the Trust Agreement or the respective interests in the Refunding Property and the lease of the Refunding Property by the Corporation to the County under the Refunding Sublease, including but not limited to all fees, costs and expenses and all administrative costs of the Corporation relating to the Refunding Property including, without limiting the generality of the foregoing, salaries and wages of employees, overhead, insurance premiums, taxes and assessments (if any), expenses, compensation and indemnification of the Trustee (to the extent not paid or otherwise provided for out of the proceeds of the sale of the Certificates or any Additional Certificates), fees of auditors, accountants, attorneys or engineers, insurance premiums, and all other reasonable and necessary administrative costs of the Corporation or charges required to be paid by it to comply with the terms of the Certificates, any Additional Certificates or the Trust Agreement.

The foregoing Additional Rental shall be billed to the County by the Corporation or the Trustee from time to time, together with a statement certifying that the amount billed has been incurred or paid by the Corporation, the Trustee or the Trustee on behalf of the Corporation for one or more of the items above described, or that such amount is then so payable for such items. Amounts so billed shall be paid by the County not later than the latest time as such amounts may be paid without penalty or, if no penalty is associated with a late payment of such amounts, within 30 days after receipt of a bill by the County for such amounts.

The Corporation may enter into leases to finance facilities other than the Refunding Property. The administrative costs of the Corporation shall be allocated among said facilities and the Refunding Property, as hereinafter in this paragraph provided. Any taxes levied against the Corporation with respect to the Refunding Property, the fees of the Trustee, and any other expenses directly attributable to the Refunding Property shall be included in the Additional Rental payable under the Refunding Sublease. Any taxes levied against the Corporation with respect to real property other than the Refunding Property, the fees of any trustee or paying agent under any resolution securing bonds of the Corporation or any trust agreement other than the Trust Agreement, and any other expenses directly attributable to any facilities other than the Refunding Property shall not be included in the administrative costs of the Refunding Property and shall not be paid from the Additional Rental payable under the Refunding Sublease. Any expenses of the Corporation not directly attributable to any particular project of the Corporation shall be equitably allocated among all such projects, including the Refunding Property, in accordance with sound accounting practice. In the event of any question or dispute as to such allocation, the written opinion of an independent firm of certified public accountants, employed by the Corporation to consider the question and render an opinion thereon, shall be final and conclusive determination as to such allocation. The Trustee may conclusively rely upon a Certificate of the Corporation in making any determination that costs are payable as Additional Rental under the Refunding Sublease, and shall not be required to make any investigation as to whether or not the items so requested to be paid are expenses of operation of the Refunding Property.

(c) *Consideration.*

(i) Such payments of Base Rental Payments and Additional Rental for each Lease Year or portion thereof during the term of the Refunding Sublease shall constitute the total rental for such Lease Year or portion thereof and shall be paid or payable by the County for and in consideration of the right of the use and possession of, and the continued quiet use and enjoyment of, the Refunding Property. On the Closing Date, the County shall deliver a certificate to the Corporation and the Trustee, which shall set forth the annual fair rental value of the Refunding Property. The parties to the Refunding Sublease have agreed and determined that the annual fair rental value of the Refunding Property is not less than the maximum Base Rental Payments payable under the Refunding Sublease in any year. In making such determinations of annual fair rental value, consideration has been given to a variety of factors including the replacement costs of the existing improvements on the Refunding Property, other obligations of the parties under the Refunding Sublease, the uses and purposes which may be served by the improvements on the Refunding Property and the benefits therefrom which will accrue to the County and the general public.

(ii) The parties to the Refunding Sublease acknowledge that the parties to the Refunding Sublease may amend the Refunding Sublease from time to time to increase the Base Rental Payments payable under the Refunding Sublease so that Additional Certificates may be executed and delivered pursuant to the Refunding Sublease and the Trust Agreement. The proceeds of such Additional Certificates shall be used for any lawful purpose. Notwithstanding anything to the contrary contained in the Refunding Sublease, the Refunding Sublease may not be amended in a manner such that the sum of Base Rental Payments, including Base Rental Payments payable pursuant to such amendment, and Additional Rental with respect to the prorated portion of Outstanding Certificates and Additional Certificates secured by the Refunding Property in any year is in excess of the annual fair rental value of the Refunding Property and other land and improvements leased to the County under the Refunding Sublease.

(d) *Payment*; *Credit*. Each installment of Base Rental Payments payable under the Refunding Sublease shall be paid in lawful money of the United States of America to or upon the order of the Corporation at the principal corporate trust office of the Trustee in Los Angeles, California, or such other place as the Corporation shall designate. Any such installment of rental accruing under the Refunding Sublease which shall not be paid when due shall remain due and payable until received by the Trustee, except as provided in the Refunding Sublease, and to the extent permitted by law shall bear interest at the rate of ten percent per annum from the date when the same is due under the Refunding Sublease until the same shall be paid. Notwithstanding any dispute between the County and the Corporation, the County shall make all rental payments when due, without deduction or offset of any kind, and shall not withhold any rental payments pending the final resolution of any such dispute. In the event of a determination that the County was not liable for said rental payments or any portion thereof, said payments or excess of payments, as the case may be, shall, at the option of the County, be credited against subsequent rental payments due under the Refunding Sublease or be refunded at the time of such determination. Amounts required to be deposited by the County with the Trustee pursuant to this paragraph on any date shall be reduced to the extent of available amounts on deposit on such date in the Base Rental Payment Fund, the Interest Fund or the Principal Fund.

Annual Budgets; Reporting Requirements. The County covenants to take such action as may be necessary to include all Base Rental Payments and Additional Rental payments due under the Refunding Sublease in its operating budget for each fiscal year commencing after the date of the Refunding Sublease (an "Operating Budget") and to make all necessary appropriations for such Base Rental Payments and Additional Rental payments.

Application of Rental Payments. All Base Rental Payments received shall be applied first to the interest components of the Base Rental Payments due under the Refunding Sublease, then to the principal components (including any prepayment premium components) of the Base Rental Payments due under the Refunding Sublease and thereafter to all Additional Rental due under the Refunding Sublease, but no such application of any payments which are less than the total rental due and owing shall be deemed a waiver of any default under the Refunding Sublease.

Rental Abatement. Except to the extent of (a) amounts held by the Trustee in the Base Rental Payment Fund or in the Certificate Reserve Fund, (b) amounts received in respect of rental interruption insurance, and (c) amounts, if any, otherwise legally available to the Trustee for payments in respect of the Certificates, during any period in which, by reason of material damage, destruction, title defect, condemnation, there is substantial interference with the use and possession by the County of any portion of the Refunding Property, rental payments due under the Refunding Sublease with respect to the Refunding Property shall be abated to the extent that the annual fair rental value of the portion of the Refunding Property in respect of which there is no substantial interference is less than the annual Base Rental Payments and Additional Rental, in which case rental payments shall be abated only by an amount equal to the difference. In the event the County shall assign, transfer or sublease any or all of the Refunding Property or other rights under the Refunding Sublease, as permitted by the Refunding Sublease, for purposes of determining the annual fair rental value available to pay Base Rental Payments and Additional Rental, annual fair rental value of the Refunding Property shall first be allocated to the Refunding Sublease as provided in the Refunding Sublease. Any abatement of rental payments pursuant to the Refunding Sublease shall not be considered an Event of Default as defined in the Refunding Sublease. The County waives the benefits of Civil Code Sections 1932(2) and 1933(4) and any and all other rights to terminate the Refunding Sublease by virtue of any such interference and the Refunding Sublease shall continue in full force and effect. Such abatement shall continue for the period commencing with the date of such damage, destruction, title defect or condemnation and ending with the substantial completion of the work of repair or replacement of the portions of the Refunding Property so damaged, destroyed, defective or condemned.

In the event that rental is abated, in whole or in part, pursuant to the Refunding Sublease due to damage, destruction, title defect or condemnation of any part of the Refunding Property and the County is unable to repair, replace or rebuild the Refunding Property from the proceeds of insurance, if any, the County agrees to apply for and to use its best efforts to obtain any appropriate state and/or federal disaster relief in order to obtain funds to repair, replace or rebuild the Refunding Property.

Prepayment of Rental Payments. The County may prepay, from eminent domain proceeds or net insurance proceeds received by it pursuant to the Refunding Sublease, all or any portion of the components of Base Rental Payments payable under the Refunding Sublease relating to any portion of the Refunding Property then unpaid, in whole on any date, or in part on any date in integral multiples of an Authorized Denomination so that the aggregate annual amounts of principal components of Base Rental Payments payable under the Refunding Sublease and the Refunding Sublease represented by the Certificates and any Additional Certificates which shall be payable after such prepayment date shall each be in an integral multiple of an Authorized Denomination and shall be as nearly proportional as practicable to the aggregate annual amounts of principal components of Base Rental Payments payable under the Refunding Sublease represented by the Certificates and any Additional Certificates.

The County may prepay, from any source of available moneys pursuant to the terms of the Trust Agreement, all or any part (in an integral multiple of an Authorized Denomination) of the principal components of Base Rental Payments payable under the Refunding Sublease then unpaid so that the aggregate annual amounts of principal components of Base Rental Payments under the Refunding Sublease which shall be payable after such prepayment date shall be as nearly proportional as practicable to the aggregate annual amounts of principal components represented by the Certificates and any Additional Certificates unpaid prior to the prepayment date, at a prepayment amount equal to the principal component prepaid plus accrued interest thereon to the date of prepayment plus any applicable premium.

Before making any prepayment pursuant to this Section, at least 45 days before the prepayment date the County shall give written notice to the Corporation and the Trustee describing such event, specifying the order of Principal Payment Dates and specifying the date on which the prepayment will be made, which date shall be not less than 30 nor more than 60 days from the date such written notice is given to the Corporation and the Trustee.

Obligation to Make Rental Payments. The agreements and covenants on the part of the County contained in the Refunding Sublease shall be deemed to be and shall be construed to be duties imposed by law and it shall be the duty of each and every public official of the County to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the County to carry out and perform the agreements and covenants contained in the Refunding Sublease agreed to be carried out and performed by the County.

THE OBLIGATION OF THE COUNTY TO MAKE BASE RENTAL PAYMENTS AND TO PAY ADDITIONAL RENT DOES NOT CONSTITUTE AN OBLIGATION OF THE COUNTY FOR WHICH THE COUNTY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE COUNTY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. NEITHER THE CERTIFICATES NOR THE OBLIGATION TO MAKE RENTAL PAYMENTS AND TO PAY ADDITIONAL RENT CONSTITUTES AN INDEBTEDNESS OF THE COUNTY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

Additional Certificates. In addition to the Certificates to be executed and delivered under the Trust Agreement the County may, from time to time, but only upon satisfaction of the conditions to the execution and delivery of Additional Certificates set forth in the Trust Agreement, enter into a Supplemental Trust Agreement to execute and deliver Additional Certificates on a parity with the Certificates and any previously executed and delivered Additional Certificates (unless otherwise provided in the related Supplemental Trust Agreement), the proceeds of which may be used for any lawful purpose by the County, as provided in the Supplemental Trust Agreement; provided that prior to or concurrently with the execution and delivery of the Additional Certificates, the County and the Corporation shall have entered into an amendment to the Refunding Sublease, providing for an increase in the Base Rental

Payments to be made under the Refunding Sublease subject to the limitations set forth in Refunding Sublease.

Maintenance; Taxes; Insurance and other Charges

Maintenance of the Refunding Property by the County. The County agrees that, at all times during the term of the Refunding Sublease, it will, at its own cost and expense, maintain, preserve and keep the Refunding Property and every portion thereof in good repair, working order and condition and that it will from time to time make or cause to be made all necessary and proper repairs, replacements and renewals. The Corporation shall have no responsibility in any of these matters or for the making of additions or improvements to the Refunding Property.

Taxes, Other Governmental Charges and Utility Charges. The parties to the Refunding Sublease contemplate that the Refunding Property will be used for public purposes by the County and, therefore, that the Refunding Property will be exempt from all taxes presently assessed and levied with respect to real and personal property, respectively. In the event that the use, possession or acquisition by the County or the Corporation of the Refunding Property is found to be subject to taxation in any form, the County will pay during the term of the Refunding Sublease, as the same respectively become due, all taxes and governmental charges of any kind whatsoever that may at any time be lawfully assessed or levied against or with respect to the Refunding Property and any other property acquired by the County in substitution for, as a renewal or replacement of, or a modification, improvement or addition to, the Refunding Property, as well as all gas, water, steam, electricity, heat, power, air conditioning, telephone, utility and other charges incurred in the operation, maintenance, use, occupancy and upkeep of the Refunding Property; *provided*, that with respect to any governmental charges or taxes that may lawfully be paid in installments over a period of years, the County shall be obligated to pay only such installments as are accrued during such time as the Refunding Sublease is in effect.

Insurance. The County shall secure and maintain or cause to be secured and maintained at all time with insurers of recognized responsibility, all coverage on the Refunding Property required by the Refunding Sublease. Such insurance shall consist of :

> (1) A policy or policies of insurance against loss or damage to the Refunding Property known as “all risk,” including flood, but excluding earthquake, which shall be maintained at any time in an amount per occurrence at least equal to the lesser of (i) the cumulative replacement values of the Refunding Property and, in the case of a policy covering more than the Refunding Property, as permitted by the next succeeding sentence, any other property which is the subject of a lease, installment purchase agreement or other financing arrangement for which bonds, certificates of participation or other obligations shall have been issued (“Obligations”) or (ii) the aggregate amount of the principal component of all then-remaining Base Rental Payments payable under the Refunding Sublease; *provided*, that with the consent of the Insurer, the amount of coverage required by this sentence may be reduced to a smaller amount if an insurance consultant or insurance broker retained by the County provides written advice to the Trustee that, based upon its evaluation of the County’s maximum foreseeable loss in the event of a major conflagration, windstorm, explosion, riot, flood or similar event, a specified smaller amount is believed to be reasonable given the nature of the risks insured and the proximity of the insured properties to each other. Such insurance may be in the form of a policy which covers the Refunding Property and one or more additional parcels of real property leased or owned by the County which may be limited in an amount per occurrence in the aggregate to the amount required by the preceding sentence. Such insurance may at any time include a deductible clause providing for a deductible not to exceed $100,000 for any one loss (except for flood, in which case the deductible may not exceed $250,000 for any one loss). The

County may obtain such coverage as a joint insured with one or more other public agencies located within or without the County of San Diego which may be limited in an amount per occurrence in the aggregate for all insureds as described in the first sentence of this paragraph (1) and which may be limited in a cumulative amount of claims during a 12-month period in the aggregate for all insureds in an amount not less than $500,000,000. Otherwise conforming policies satisfying the requirements of this paragraph (1) may provide that amounts payable as coverage under this paragraph (1) may be reduced by amounts payable under paragraph (3) for the same occurrence, and vice versa. The County is, however, under no obligation to provide insurance against loss or damage occasioned by the perils of earthquake.

(2) In the event that such coverage is not included in paragraph (1) above, boiler and machinery coverage against loss or damage by explosion of steam boilers, pressure vessels and similar apparatus now or hereafter installed on the Refunding Property in an amount not less than $75,000,000 per accident; *provided, however,* that the amount of coverage required by this sentence may be reduced to a smaller amount if an insurance consultant or insurance broker retained by the County provides written advice to the Trustee that, based upon its evaluation of the County's maximum foreseeable loss in the event of loss or damage by steam boilers, pressure vessels and similar apparatus now or hereafter installed on the Refunding Property, a specified smaller amount is believed to be reasonable. Such insurance may be in the form of a policy which covers the Refunding Property and one or more additional parcels of real property leased or owned by the County which may be limited in amount to $75,000,000 per accident. Such insurance may at any time include a deductible clause providing for a deductible not to exceed $100,000 for any one loss. The County may obtain such coverage as a joint insured with one or more public agencies located within or without the County of San Diego which may be limited in amount to $75,000,000 per accident. Otherwise conforming policies satisfying the requirements of this paragraph (2) may provide that amounts payable as coverage under this paragraph (2) may be reduced by amounts payable under paragraph (3) for the same occurrence, and *vice versa*.

(3) Rental interruption insurance to cover loss, total or partial, of the use of any part of the Refunding Property as a result of any of the hazards covered by the insurance required pursuant to paragraph (1) or (2) above, as the case may be, in an amount sufficient at all times to pay the total rent payable under the Refunding Sublease for a period of not less than two years' Base Rental Payments for the Refunding Property; provided that such rental interruption insurance may be included in the policy or policies provided pursuant to paragraph (1) or (2) without increasing the aggregate limits for coverage with respect to any hazard covered thereby. Such insurance also may be in the form of a policy which covers the Refunding Property and one or more additional parcels of real property leased or owned by the County. The County also may obtain an otherwise conforming policy required by this paragraph (3) as a joint insured with one or more other public agencies within or without the County of San Diego which may, with respect to any hazard, be limited in aggregate amount for all insureds to the amount of the policy or policies required pursuant to paragraph (1) or (2) above, as the case may be, which insures against such hazard. Otherwise conforming policies satisfying the requirements of this paragraph (3) may provide that amounts payable as coverage under this paragraph (3) may be reduced by amounts payable under paragraph (1) or (2), as the case may be, for the same occurrence, and *vice versa*.

The County shall collect, adjust and receive all moneys which may become due and payable under any policies contemplated by paragraphs (1) and (2) above, and, may compromise any and all claims thereunder and shall transfer the net proceeds of such insurance as provided in the Refunding Sublease or in the Trust Agreement. The Trustee shall not be responsible for the sufficiency of any insurance required in the Refunding Sublease. The Trustee shall be fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss agreed to by the County.

Any insurance policy issued pursuant to paragraph (1) or (2) above shall be so written or endorsed as to make losses, if any, payable to the County, the Corporation and the Trustee as their respective interests may appear and the net proceeds of the insurance required by paragraphs (1) or (2) above shall be applied as provided in the Refunding Sublease. The net proceeds, if any, of the insurance policy described in paragraphs (1) and (2) above shall be payable to the County for deposit in the Insurance Proceeds and Condemnation Awards Fund. The net proceeds, if any, of the insurance policy described in paragraph (3) above shall be payable to the Trustee and deposited in the Base Rental Payment Fund. Each insurance policy provided for in Refunding Sublease shall contain a provision to the effect that the insurance company shall not cancel the policy or modify it materially and adversely to the interests of the Corporation or the Trustee without first giving written notice thereof to the Corporation and the Trustee at least 30 days in advance of such intended cancellation or modification.

The County shall file a Certificate of the County with the Trustee not later than January 31 of each year certifying that the insurance policies required by the Refunding Sublease are in full force and effect and that the Corporation and/or the Trustee is named as a loss payee on each insurance policy which the Refunding Sublease requires to be so endorsed. The Trustee shall have no responsibility whatsoever for determining the adequacy of any insurance required under the Refunding Sublease.

Advances. In the event the County shall fail to maintain the full insurance coverage required by the Refunding Sublease or shall fail to keep the Refunding Property in good repair and operating condition, the Corporation may (but shall be under no obligation to) purchase the required policies of insurance and pay the premiums on the same or may make such repairs or replacements as are necessary and provide for payment thereof; and all amounts so advanced therefor by the Corporation shall become Additional Rental, which amounts the County agrees to pay within 30 days of a written request therefor, together with interest thereon at the maximum rate allowed by law.

Title Insurance. The County covenants and agrees to deliver or cause to be delivered to the Trustee on the Closing Date a CLTA leasehold owner's policy or policies, or a commitment for such policy or policies, with respect to the Refunding Property with liability in the aggregate amount of the principal component of all Base Rental Payments payable under the Refunding Sublease. Such policy or policies, when issued, shall name the Trustee as the insured and shall insure the leasehold estate of the County in the Refunding Property subject only to such exceptions as do not materially affect the County's right to the use and occupancy of the Refunding Property.

Damage, Destruction, Title Defect and Condemnation

Damage, Destruction, Title Defect and Condemnation; Use of Net Proceeds. If prior to the termination of the term of the Refunding Sublease (a) the Refunding Property or any portion thereof is destroyed (in whole or in part) or is damaged by fire or other casualty; or (b) title to, or the temporary use of, the Refunding Property or any portion thereof or the estate of the County or the Corporation in the Refunding Property or any portion thereof is defective or shall be taken under the exercise of the power of eminent domain by any governmental body or by any person or firm or corporation acting under governmental authority, then the County and the Corporation will cause the net proceeds of any insurance claim or condemnation award to be applied to the prompt repair, restoration, modification, improvement or replacement of the damaged, destroyed, defective or condemned portion of the Refunding Property, and any balance of the net proceeds remaining after such work has been completed shall be paid to the County; *provided*, that the County, at its option and provided the proceeds of such insurance or condemnation award together with any other moneys then available for the purpose are at least sufficient to prepay the aggregate annual amounts of the principal and interest components of the Base Rental Payments due under the Refunding Sublease attributable to the portion of the Refunding Property so destroyed, damaged, defective or condemned (determined by reference to the proportion which the annual fair rental value of the destroyed, damaged, defective or condemned portion thereof bears to the annual fair rental value of the Refunding Property), may elect not to repair, reconstruct or replace the damaged, destroyed, defective or condemned portion of the Refunding Property and thereupon shall cause said proceeds to be used for the prepayment of Outstanding Certificates and Additional Certificates pursuant to the provisions of the Trust Agreement. Notwithstanding any other provision in the Refunding Sublease, the County shall only prepay less than all of the principal component of the then-remaining Base Rental Payments if the annual fair rental value of the Leased Refunding Property after such damage, destruction, title defect or condemnation is at least equal to the aggregate annual amount of the principal and interest components of the Base Rental Payments not being prepaid.

In the event that the proceeds, if any, of said insurance or condemnation award are insufficient either to (i) repair, rebuild or replace the Refunding Property so that the fair rental value of the Refunding Property would be at least equal to the Base Rental Payments or (ii) to prepay all the Outstanding Certificates and Additional Certificates, both as provided in the preceding paragraph, then the County may, in its sole discretion, budget and appropriate an amount necessary, but in no event more than the net proceeds available from any insurance claim or condemnation award described in the Refunding Sublease, to effect such repair, rebuilding or replacement or prepayment; provided that the failure of the County to so budget and/or appropriate shall not be a breach of or default under the Refunding Sublease.

Disclaimer of Warranties; Vendor's Warranties; Use of the Refunding Property

Disclaimer of Warranties. NEITHER THE TRUSTEE NOR THE CORPORATION MAKES ANY AGREEMENT, WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, AS TO THE VALUE, DESIGN, CONDITION, MERCHANTABILITY OR FITNESS FOR PARTICULAR PURPOSE OR FITNESS FOR USE OF THE REFUNDING PROPERTY, OR WARRANTY WITH RESPECT THERETO. THE COUNTY ACKNOWLEDGES THAT NEITHER THE TRUSTEE NOR THE CORPORATION IS A MANUFACTURER OF ANY PORTION OF THE REFUNDING PROPERTY OR A DEALER THEREIN, THAT THE COUNTY LEASES THE REFUNDING PROPERTY AS-IS, IT BEING AGREED THAT ALL OF THE AFOREMENTIONED RISKS ARE TO BE BORNE BY THE COUNTY. In no event shall the Corporation or the Trustee be liable for any incidental, indirect, special or consequential damage in connection with or arising out of the Refunding Sublease or the existence, furnishing, functioning or the County's use of the Refunding Property as provided by the Refunding Sublease.

Use of the Refunding Property; Improvements. The County will not use, operate or maintain the Refunding Property improperly, carelessly, in violation of any applicable law or in a manner contrary to that contemplated by the Refunding Sublease. The County shall provide all permits and licenses, if any, necessary for the use of the Refunding Property. In addition, the County agrees to comply in all respects (including, without limitation, with respect to the use, maintenance and operation of each portion of the Refunding Property) with all laws of the jurisdictions in which its operations involving any portion of the Refunding Property may extend and any legislative, executive, administrative or judicial body exercising any power or jurisdiction over the Refunding Property; *provided*, that the County may contest in good faith the validity or application of any such law or rule in any reasonable manner which does not, in the opinion of the County adversely affect the estate of the Corporation in and to the Refunding Property or its interest or rights under the Refunding Sublease.

Assignment and Indemnification

Assignment by Corporation. The parties understand that certain of the rights of the Corporation under the Refunding Sublease and under the Refunding Lease will be assigned to the Trustee pursuant to the Assignment Agreement, and accordingly the County agrees to make all payments due under the Refunding Sublease to the Trustee, notwithstanding any claim, defense, setoff or counterclaim whatsoever (whether arising from a breach of the Refunding Sublease or otherwise) that the County may from time to time have against the Corporation. The County agrees to execute all documents, including notices of assignment and chattel mortgages or financing statements, which may be reasonably requested by the Corporation or the Trustee to protect their interests in the Refunding Property during the term of the Refunding Sublease.

Assignment by County. The Refunding Sublease and the interest of the County in the Refunding Property may not be assigned or encumbered by the County except as permitted by the Refunding Sublease.

Indemnification. The County shall, to the full extent then permitted by law, indemnify, protect, hold harmless, save and keep harmless the Corporation and the Trustee and their respective directors, officers and employees from and against any and all liability, obligations, losses, claims and damages whatsoever, regardless of the cause thereof, and expenses in connection therewith, including, without limitation, counsel fees and expenses, penalties and interest arising out of or as the result of the entering into of the Refunding Sublease, the acquisition, construction, installation and use of the Refunding Property and each portion thereof or any accident in connection with the operation, use, condition or possession of the Refunding Property or any portion thereof resulting in damage to property or injury to or death to any person including, without limitation, any claim alleging latent and other defects, whether or not discoverable by the County or the Corporation; any claim arising out of the use, presence, storage, disposal or release of any Hazardous Substances on or about the Refunding Property; any claim for patent, trademark or copyright infringement; and any claim arising out of strict liability in tort. The indemnification arising under the Refunding Sublease shall continue in full force and effect notwithstanding the full payment of all obligations under the Refunding Sublease or the termination of the Refunding Sublease for any reason. The County, the Trustee and the Corporation mutually agree to promptly give notice to each other of any claim or liability indemnified against by the Refunding Sublease following the learning thereof by such party.

Default

The following events shall be "Events of Default" under the Refunding Sublease and the terms "Event of Default" and "Default" shall mean, whenever they are used in the Refunding Sublease, any one or more of the following events:

(1) The County shall fail to deposit with the Trustee any Base Rental Payment required to be so deposited by the close of business on the day such deposit is required pursuant to the Refunding Sublease, provided, that the failure to deposit any Base Rental Payments abated pursuant to the Refunding Sublease shall not constitute an Event of Default;

(2) The County shall fail to pay any item of Additional Rental when the same shall become due and payable pursuant to the Refunding Sublease; or

(3) The County shall breach any other terms, covenants or conditions contained in the Refunding Sublease or in the Trust Agreement, and shall fail to remedy any such breach with all reasonable dispatch within a period of 30 days after written notice thereof from the

Corporation to the County; *provided, however,* that if the failure stated in the notice cannot be corrected within such period, then the Corporation shall not unreasonably withhold its consent to an extension of such time if corrective action is instituted by the County within such period and is diligently pursued until the default is corrected.

Upon the happening of any of the Events of Default specified in the Refunding Sublease, it shall be lawful for the Corporation or its assignee, subject to the terms of the Refunding Sublease, and to the direction and control of the Insurer, so long as the Insurer is not in default under the Bond Insurance Policy, to exercise any and all remedies available or granted to it pursuant to law or under the Refunding Sublease.

Upon the occurrence of an Event of Default, the Corporation or its assignee must thereafter maintain the Refunding Sublease in full force and effect and may only recover rent and other monetary charges as they become due, all without terminating the County's right to possession of the Refunding Property, regardless of whether or not the County has abandoned the Refunding Property; **THIS SHALL BE THE SOLE AND EXCLUSIVE REMEDY AVAILABLE AGAINST THE COUNTY UNDER THIS SUBLEASE OR OTHERWISE**. In such event, the County shall remain liable and agrees to keep or perform all covenants and conditions in the Refunding Sublease contained to be kept or performed by the County and, to pay the rent to the end of the term of the Refunding Sublease and further agrees to pay said rent and/or rent deficiency punctually at the same time and in the same manner as provided in the Refunding Sublease for the payment of rent under the Refunding Sublease (without acceleration).

The Corporation expressly waives the right to receive any amount from the County pursuant to Section 1951.2(a)(3) of the California Civil Code.

In addition to any Event of Default resulting from breach by the County of any agreement, condition, covenant or term of the Refunding Sublease, if the County's interest in the Refunding Sublease or any part thereof assigned, sublet or transferred without the written consent of the Corporation (except as otherwise permitted by the Refunding Sublease), either voluntarily or by operation of law; or the County or any assignee shall file any petition or institute any proceedings under any act or acts, state or federal, dealing with or relating to the subject of bankruptcy or insolvency or under any amendment of such act or acts, either as a bankrupt or as an insolvent or as a debtor or in any similar capacity, wherein or whereby the County asks or seeks or prays to be adjudicated a bankrupt, or is to be discharged from any or all of its debts or obligations, or offers to its creditors to effect a composition or extension of time to pay its debts, or asks, seeks or prays for a reorganization or to effect a plan of reorganization or for a readjustment of its debts or for any other similar relief, or if the County shall make a general or any assignment for the benefit of its creditors; or the County shall abandon or vacate the Refunding Property or any portion thereof (except as permitted by the Refunding Sublease); then in each and every such case the County shall be deemed to be in default under the Refunding Sublease.

Neither the County nor the Corporation shall be in default in the performance of any of its obligations under the Refunding Sublease (except for the obligation to make Base Rental Payments pursuant to the Refunding Sublease) unless and until it shall have failed to perform such obligation within 30 days after notice by the County of the Corporation, as the case may be, to the other party properly specifying wherein it has failed to perform such obligation.

The County and Corporation and its successors and assigns shall honor the exclusive rights of the County to use the Refunding Property.

Miscellaneous

Trustee as Third Party Beneficiary. The Trustee is designated a third party beneficiary under the Refunding Sublease for the purpose of enforcing any of the rights under the Refunding Sublease assigned to the Trustee under the Assignment Agreement.

Net Lease. It is the purpose and intent of the Corporation and the County that lease payments under the Refunding Sublease shall be absolutely net to the Corporation so that the Refunding Sublease shall yield to the Corporation the lease payments, free of any charges, assessments or impositions of any kind charged, assessed or imposed on or against the Refunding Property, and without counterclaim, deduction, defense, deferment or set-off by the County except as specifically otherwise provided in the Refunding Sublease. The Corporation shall not be expected or required to pay any such charge, assessment or imposition, or be under any obligation or liability under the Refunding Sublease except as expressly set forth in the Refunding Sublease, and all costs, expenses and obligations of any kind relating to the maintenance and operation of the Refunding Property which may arise or become due during the term of the Refunding Sublease shall be paid by the County.

Amendments. The Refunding Sublease may be amended in writing as may be mutually agreed by the Corporation and the County, subject to the written approval of the Trustee; *provided,* that no such amendment which materially adversely affects the rights of the Owners shall be effective unless it shall have been consented to by the Owners of more than 50% in principal amount of the Certificates and Additional Certificates Outstanding, and provided further, that no such amendment shall (a) extend the payment date of any Base Rental Payment, or reduce the interest, principal or prepayment premium component of any Base Rental Payment, without the prior written consent of the Owner of each Certificate and Additional Certificate so affected, or (b) reduce the percentage of the principal amount of the Certificates and Additional Certificates Outstanding the consent of the Owners of which is required for the execution of any amendment of the Refunding Sublease.

The Refunding Sublease and the rights and obligations of the Corporation and the County under the Refunding Sublease may also be amended or supplemented at any time by an amendment of the Refunding Sublease or supplement to the Trust Agreement which shall become binding upon execution without the written consents of any Owners, but only to the extent permitted by law and only for any one or more of the following purposes:

(a) to add to the agreements, conditions, covenants and terms required by the Corporation or the County to be observed or performed in the Refunding Sublease and other agreements, conditions, covenants and terms thereafter to be observed or performed by the Corporation or the County, or to surrender any right or power reserved in the Refunding Sublease to or conferred in the Refunding Sublease on the Corporation or the County, and which in either case shall not materially adversely affect the interests of the Owners;

(b) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained in the Refunding Sublease or in regard to questions arising under the Refunding Sublease which the Corporation or the County may deem desirable or necessary and not inconsistent with the Refunding Sublease, and which shall not materially adversely affect the interests of the Owners;

(c) to effect a Substitution or Removal in accordance with the Refunding Sublease;

(d) to facilitate the issuance of Additional Certificates as provided in the Refunding Sublease; or

(e) to make any other addition, amendment or deletion which does not materially adversely affect the interests of the Owners or the Insurer.

Discharge of County. Upon the payment of all Base Rental Payments and Additional Rental payable under the Refunding Sublease, all of the obligations of the County under the Refunding Sublease shall thereupon cease, terminate and become void and shall be discharged and satisfied; *provided, however*, if any Outstanding Certificates and Additional Certificates shall be deemed to have been paid by virtue of a deposit of Base Rental Payments under the Refunding Sublease pursuant to the Trust Agreement, then the obligation of the County under the Refunding Sublease to make Base Rental Payments under the Refunding Sublease shall continue in full force and effect until the Outstanding Certificates and Additional Certificates so deemed paid have in fact been paid, but such payments shall be made solely and exclusively from moneys and securities deposited with the Trustee as contemplated by the Trust Agreement, and that shall be the sole source of satisfaction of the County's obligation to make Base Rental Payments. The time period for giving notice by the County to the Corporation and the Trustee specified in the Refunding Sublease shall not apply incident to the payment to the Owners of all Outstanding Certificates and Additional Certificates in accordance with the Trust Agreement.

California Law. The Refunding Sublease shall be governed by and construed and interpreted in accordance with the laws of the State of California.

Insurer Deemed Owner. For the purpose of (i) the giving of consents to amendments to the Refunding Sublease, (ii) the giving of any other consent of the Owners under the Refunding Sublease, and (iii) the control and direction of all rights and remedies upon the occurrence of an Event of Default, the Insurer shall be deemed to be the sole Owner of the Certificates for so long as it has not failed to comply with its payment obligations under the Bond Insurance Policy; *provided, however,* that, notwithstanding the foregoing, the Insurer shall not be deemed to be the Owner of the Certificates for any consent to an amendment to the Refunding Sublease that (a) extends the payment date of any Base Rental Payment, or reduces the interest, principal or prepayment premium component of any Base Rental Payment, or (b) reduces the percentage of the principal amount of the Certificates and Additional Certificates Outstanding the consent of the Owners of which is required for the execution of any amendment of the Refunding Sublease.

REFUNDING LEASE

Refunding Property. The County leases to the Corporation and the Corporation rents and hires from the County, on the terms and conditions set forth in the Refunding Lease, the Refunding Property.

Term.

(a) The term of the Refunding Lease will commence on the Closing Date and shall end on the Expiry Date (as defined in the Refunding Sublease) unless such term is sooner terminated or is extended as provided in the Refunding Lease. If prior to the Expiry Date all Base Rental Payments under the Refunding Sublease shall have been paid, or provision therefor has been made in accordance with the Trust Agreement, the term of the Refunding Lease shall end simultaneously therewith.

(b) If the Refunding Sublease is extended beyond the Expiry Date pursuant to the terms thereof, the Refunding Lease shall also be extended to the day following the date of termination of the Refunding Sublease.

Rent. The Corporation shall pay to the County an advance rent of $1.00, which, together with the execution and delivery of the Refunding Sublease, shall constitute full consideration for the Refunding

Lease over its term. The Corporation waives any right that it may have under the laws of the State of California to receive a rebate of such rent in full or in part in the event there is a substantial interference with the use and right of possession by the Corporation of the Refunding Property or portion thereof as a result of material damage, destruction or condemnation.

Purpose. The Corporation shall use the Refunding Property solely for the purpose of subleasing the same to the County; *provided,* that in the event of default by the County under the Refunding Sublease, the Corporation may exercise the remedies provided in the Refunding Sublease.

Owner in Fee. The County covenants that it is the owner of the Refunding Property free and clear of all liens, claims or encumbrances which affect marketability.

Assignments and Refunding Sublease. Unless the County shall be in default under the Refunding Sublease, the Corporation may not, without the prior written consent of the County, assign its rights under the Refunding Lease or sublet the Refunding Property except that the County expressly approves and consents to the assignment and transfer of the Corporation's right, title and interest in the Refunding Lease to the Trustee pursuant to the Assignment Agreement.

Right of Entry. The County reserves the right for any of its duly authorized representatives to enter upon the Refunding Property at any reasonable time to inspect the same or to make any repairs, improvements or changes necessary for the preservation thereof.

Termination. The Corporation agrees, upon the termination of the Refunding Lease, to quit and surrender the Refunding Property in the same good order and condition as the same was in at the time of commencement of the terms under the Refunding Lease, reasonable wear and tear excepted, and agrees that any permanent improvements to the Refunding Property at the time of the termination of the Refunding Lease shall remain thereon and title thereto shall vest in the County.

Default. In the event the Corporation shall be in default in the performance of any obligation on its part to be performed under the terms of the Refunding Lease, which default continues for thirty (30) days following notice and demand for correction thereof to the Corporation, the County may exercise any and all remedies granted by law, except that no merger of the Refunding Lease and of the Refunding Sublease shall be deemed to occur as a result thereof; *provided,* that so long as the Certificates executed and delivered pursuant to the Trust Agreement are Outstanding, the County shall have no power to terminate the Refunding Lease by reason of any default on the part of the Corporation, if such termination would affect or impair any assignment of the Refunding Sublease then in effect between the Corporation and the Trustee that executes and delivers the Certificates.

Eminent Domain. In the event the whole or any portion of the Refunding Property is taken by eminent domain proceedings, the interest of the Corporation shall be recognized and is determined to be the amount of the then unpaid Base Rental Payments payable under the Refunding Sublease, and the amount of the unpaid Additional Rental due under the Refunding Sublease, and the balance of the award, if any, shall be paid to the County.

Amendments. The Refunding Lease may be amended for the purpose of affecting a Substitution or Removal, as further described in the Refunding Sublease.

Governing Law. The Refunding Lease is made in the State of California under the Constitution and laws of the State of California and is to be so construed.

THE ASSIGNMENT AGREEMENT

Assignment. The Corporation, for good and valuable consideration, the receipt of which is acknowledged, does unconditionally grant, transfer and assign to the Trustee without recourse (a) all right, title and interest of the Corporation as lessee under the Refunding Lease; (b) all rights of the Corporation to receive the Base Rental Payments scheduled to be paid by the County under and pursuant to the Refunding Sublease for the benefit of the Owners of the Certificates; (c) all rents, profits and products from the Refunding Property to which the Corporation has any right or claim whatsoever under the Refunding Sublease; (d) the right to take all actions and give all consents under the Refunding Sublease; (e) the right of access more particularly described in the Refunding Sublease; and (f) any and all other rights and remedies of the Corporation in the Refunding Sublease as lessor thereunder for the purpose of (i) paying all sums due and owing to the Owners of the Certificates under the terms of the Trust Agreement, and (ii) performing and discharging each agreement, covenant and obligation of the County contained in the Refunding Sublease and in the Trust Agreement.

Acceptance. The Trustee accepts the foregoing assignment for the benefit of the Owners of the Certificates, subject to the conditions and terms of the Trust Agreement, and all such Base Rental Payments payable under the Refunding Sublease shall be applied and all such rights so assigned shall be exercised by the Trustee as provided in the Trust Agreement.

Payment of Rentals. Upon payment or provision for payment to the Trustee in full of all Base Rental Payments under the Refunding Sublease and of all other amounts, including any additional rental or other amounts owed by the County under the Refunding Sublease or the Trust Agreement, the Assignment Agreement shall become and be void and of no effect with respect to the Refunding Sublease and, when the Certificates are no longer Outstanding (as defined in the Trust Agreement), the Trustee shall execute any and all documents or certificates reasonably requested by the Corporation to evidence the termination of the Assignment Agreement with respect to the Refunding Sublease.

Governing Law. The Assignment Agreement is made in the State of California under the Constitution and laws of the State of California and is to be so construed.

THE TRUST AGREEMENT

Terms and Conditions of Certificates

Dating of Certificates. The Certificates shall be dated their date of delivery. Each Certificate shall represent interest from the Interest Payment Date to which interest has been paid or duly provided for next preceding its date of execution, unless such date of execution shall be (i) prior to the close of business on May 15, 2006, in which case such Certificate shall represent interest from its date of delivery, (ii) subsequent to a Record Date but before the related Interest Payment Date, in which case such Certificate shall represent interest from such Interest Payment Date, or (iii) an Interest Payment Date to which interest has been paid in full or duly provided for, in which case such Certificate shall represent interest from such date of execution; *provided*, *however*, that if, as shown by the records of the Trustee, interest shall be in default, each Certificate shall represent interest from the last Interest Payment Date to which such interest has been paid in full or duly provided for.

Method and Place of Payment. Except as otherwise provided in the Representation Letter, the interest represented by the Certificates shall be payable on each Interest Payment Date by check sent by first class mail by the Trustee to the respective Owners of the Certificates as of the Record Date for such Interest Payment Date at their addresses shown on the books required to be kept by the Trustee pursuant to the provisions of the Trust Agreement. Payments of defaulted interest with respect to any Certificate shall be paid by check to the Owner as of a special record date to be fixed by the Trustee, notice of which special record date shall be given to the Owner of the Certificate not less than ten days prior thereto. The principal and premium, if any, represented by the Certificates shall be payable upon presentation and surrender thereof on maturity or on prepayment prior thereto at the Principal Corporate Trust Office of the Trustee.

The Owner of $1,000,000 or more in aggregate principal amount represented by the Certificates may request in writing that the Trustee pay the interest represented by such Certificates by wire transfer to an account in the United States of America and the Trustee shall comply with such request for all Interest Payment Dates following the 15th day after receipt of such request.

Transfer and Payment of Certificates; Exchange of Certificates. All Certificates may be presented for transfer by the Owner thereof, in person or by his attorney duly authorized in writing, at the Principal Corporate Trust Office of the Trustee, on the books required to be kept by the Trustee pursuant to the provisions of the Trust Agreement, upon surrender of such Certificates for cancellation accompanied by delivery of a duly executed written instrument of transfer in a form acceptable to the Trustee. The Trustee may treat the Owner of any Certificate as the absolute owner of such Certificate for all purposes, whether or not such Certificate shall be overdue, and the Trustee shall not be affected by any knowledge or notice to the contrary; and payment of the interest and principal represented by such Certificate shall be made only to such Owner, which payments shall be valid and effectual to satisfy and discharge the liability represented by such Certificate to the extent of the sum or sums so paid.

Whenever any Certificate or Certificates shall be surrendered for transfer, the Trustee shall execute and deliver a new Certificate or Certificates representing the same principal amount in Authorized Denominations. The Trustee shall require the payment by any Owner requesting such transfer of any tax or other governmental charge required to be paid with respect to such transfer.

Certificates may be presented for exchange at the Principal Corporate Trust Office of the Trustee, for a like aggregate principal amount of Certificates of other Authorized Denominations. The Trustee shall require the payment by the Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange.

The Trustee shall not be required to transfer or exchange any Certificate during the period in which the Trustee is selecting Certificates for prepayment, nor shall the Trustee be required to transfer or exchange any Certificate or portion thereof selected for prepayment from and after the date of mailing the notice of prepayment thereof.

Certificate Registration Books. The Trustee will keep sufficient books for the registration and transfer of the Certificates, which books shall be available for inspection by the Corporation and the County at reasonable hours and under reasonable conditions; and upon presentation for such purpose the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer the Certificates on such books as provided in the Trust Agreement. The Trustee will, upon written request, make copies of the foregoing available to any Owner of at least five percent in aggregate principal amount of Outstanding Certificates or his agent duly authorized in writing.

Temporary Certificates. The Certificates may be initially delivered in temporary form exchangeable for definitive Certificates when ready for delivery, which temporary Certificates shall be printed, lithographed or typewritten, shall be of such denominations as may be determined by the Trustee, shall be in fully registered form and shall contain such reference to any of the provisions of the Trust Agreement as may be appropriate. Every temporary Certificate shall be executed and delivered by the Trustee upon the same conditions and terms and in substantially the same manner as definitive

Certificates. If the Trustee executes and delivers temporary Certificates, it will execute definitive Certificates without delay, and thereupon the temporary Certificates may be surrendered at the Principal Corporate Trust Office of the Trustee, in exchange for such definitive Certificates, and until so exchanged such temporary Certificates shall be entitled to the same benefits under the Trust Agreement as definitive Certificates executed and delivered under the Trust Agreement.

Certificates Mutilated, Lost, Destroyed or Stolen. If any Certificate shall become mutilated, the Trustee, at the expense of the Owner thereof, shall execute and deliver a new Certificate of like tenor, payment date in exchange and substitution for the Certificate so mutilated, but only upon surrender to the Trustee of the Certificate so mutilated. Every mutilated Certificate so surrendered to the Trustee shall be canceled by it. If any Certificate shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee, and if such evidence is satisfactory to the Trustee and indemnity satisfactory to the Trustee shall be given, the Trustee, at the expense of the Owner thereof, shall execute and deliver a new Certificate of like tenor, numbered as the Trustee shall determine, in lieu of and in substitution for the Certificate so lost, destroyed or stolen. The Trustee shall require payment of a sum not exceeding the actual cost of preparing each new Certificate executed and delivered by it under the Trust Agreement and of the expenses which may be incurred by it under the Trust Agreement. Any Certificate executed and delivered under the provisions of the Trust Agreement in lieu of any Certificate alleged to be lost, destroyed or stolen shall be equally and proportionately entitled to the benefits of the Trust Agreement with all other Certificates secured by the Trust Agreement, and the Trustee shall not be required to treat both the original Certificate and any replacement Certificate as being Outstanding for the purpose of determining the amount of Certificates which may be executed and delivered under the Trust Agreement or for the purpose of determining any percentage of Certificates Outstanding under the Trust Agreement, but both the original and replacement Certificate shall be treated as one and the same. Notwithstanding any other provision of this paragraph, in lieu of executing and delivering a new Certificate for a Certificate which has been lost, destroyed or stolen and which has matured or will mature within 30 days after the Trustee has received all required indemnity and payments on account of a lost, destroyed or stolen Certificate, the Trustee may make payment of such Certificate to the Owner thereof on or after the maturity date.

Execution and Delivery of Additional Certificates. In addition to the County's Certificates of Participation, the County, the Corporation and the Trustee may, by execution of a Supplemental Trust Agreement without the consent of the Owners but with the consent of the Insurer (which consent shall not be unreasonably withheld), provide for the execution and delivery of Additional Certificates representing additional Base Rental Payments (which Additional Certificates shall not use the number "2005" in the title thereof). The Trustee may execute and deliver to or upon the request of the County such Additional Certificates, in such principal amount as shall reflect the additional principal components and interest components of the Base Rental Payments, and the proceeds of such Additional Certificates may be applied to any lawful purposes of the County or the Corporation, but such Additional Certificates may only be executed and delivered upon compliance by the County with the provisions of the Trust Agreement and subject to the following specific conditions, which are made conditions precedent to the execution and delivery of any such Additional Certificates:

(a) Neither of the County nor the Corporation shall be in default under the Trust Agreement or any Supplemental Trust Agreement or under either Lease or either Sublease;

(b) Said Supplemental Trust Agreement shall provide that from such proceeds or other sources an amount shall be deposited in the Certificate Reserve Fund so that following such deposit there shall be on deposit in the Certificate Reserve Fund an amount at least equal to the Certificate Reserve Fund Requirement;

(c) The Additional Certificates shall be payable as to principal only on a Principal Payment Date of each year in which principal components are due and shall be payable as to interest only on an Interest Payment Date of each year commencing with the first Interest Payment Date occurring after their date of execution and delivery;

(d) The interest with respect to the Additional Certificates shall be payable at a fixed rate;

(e) The aggregate principal amount of Certificates executed and delivered and at any time Outstanding under the Trust Agreement or under any Supplemental Trust Agreement shall not exceed any limit imposed by law, by the Trust Agreement or by any Supplemental Trust Agreement;

(f) The Refunding Lease or the Refunding Sublease shall have been amended, to the extent necessary, so as to increase the Base Rental Payments payable by the County thereunder by an aggregate amount equal to the principal and interest represented by such Additional Certificates, payable at such times and in such manner as may be necessary to provide for the payment of the principal and interest represented by such Certificates; *provided, however,* that no such amendment shall be made such that Base Rental Payments shall be in any way conditioned upon an additional risk of construction or completion of any portion of the Refunding Property and that the sum of Base Rental Payments, including any such amendment, plus Additional Rental in any year shall be in excess of the annual fair rental value of the Refunding Property (without taking into account the use of the proceeds of any Additional Certificates executed and delivered in connection therewith), and evidence of the satisfaction of this condition shall be made by a Certificate of the County; and

(g) Said Supplemental Trust Agreement shall provide Principal Payment Dates and/or mandatory prepayments of Additional Certificates in amounts sufficient to provide for payment of the Additional Certificates when principal and interest components of Base Rental Payments are due.

Any Additional Certificates shall be on a parity with the Certificates and each Owner thereof shall have the same rights upon an Event of Default as the Owner of any other Certificates executed and delivered under the Trust Agreement, except as otherwise provided in the Supplemental Trust Agreement under which Additional Certificates are executed and delivered.

The County shall cause to be given to Fitch, Moody's and S&P, notice of any execution and delivery of Additional Certificates.

Proceedings for Authorization of Additional Certificates. Whenever the County and the Corporation shall determine to authorize the execution and delivery of any Additional Certificates pursuant to the Trust Agreement, the County, the Corporation and the Trustee shall enter into a Supplemental Trust Agreement without the consent of the Owners of any Certificates, providing for the execution and delivery of such Additional Certificates, specifying the maximum principal amount of such Additional Certificates and prescribing the terms and conditions of such Additional Certificates.

Such Supplemental Trust Agreement shall prescribe the form or forms of such Additional Certificates and, subject to the provisions of the Trust Agreement, shall provide for the distinctive designation, denominations, method of numbering, dates, Principal Payment Dates, interest rates, Interest Payment Dates, provisions for prepayment (if desired) and places of payment of principal and interest.

Before such Additional Certificates shall be executed and delivered, the County and the Corporation shall file or cause to be filed the following documents with the Trustee:

(a) An Opinion of Counsel setting forth (1) that such Counsel has examined the Supplemental Trust Agreement and the amendment, if any, to the Refunding Lease and the Refunding Sublease, required by the Trust Agreement; (2) that the execution and delivery of the Additional Certificates have been sufficiently and duly authorized by the County and the Corporation; (3) that said amendments to the Refunding Lease and the Refunding Sublease and the Supplemental Trust Agreement, when duly executed by the County and the Corporation, will be valid and binding obligations of the County and the Corporation; (4) that said amendments to the Refunding Lease and the Refunding Sublease have been duly authorized, executed and delivered and have been duly recorded; and (5) that the amendments to Refunding Lease and the Refunding Sublease do not adversely affect the tax-exempt status of interest evidenced by Outstanding Certificates;

(b) A Certificate of the County that the requirements of the Trust Agreement have been met, which shall include a Certificate by the County as to the annual fair rental value of the Property, without giving effect to the execution and delivery of the Additional Certificates and to the use of proceeds received therefrom;

(c) Certified copies of the resolutions of the County and the Corporation, authorizing the execution of the amendments to the Refunding Lease and the Refunding Sublease required by the Trust Agreement;

(d) An executed counterpart or duly authenticated copy of the amendments to the Refunding Lease and the Refunding Sublease as required by the Trust Agreement;

(e) Certified copies of the policies of insurance required by the Refunding Sublease or certificates thereof, which shall evidence that the amounts of the insurance required under the the Refunding Sublease have been increased, if necessary, to cover the amount of such Additional Certificates; and

(f) A CLTA title insurance policy or other appropriate form of policy in the amount of the Additional Certificates of the type and with the endorsements described in the Refunding Sublease.

Upon the delivery to the Trustee of the foregoing instruments so as to permit the execution and delivery of the Additional Certificates in accordance with the Supplemental Trust Agreement then delivered to the Trustee, the Trustee shall execute and deliver said Additional Certificates, in the aggregate principal amount specified in such Supplemental Trust Agreement, to, or upon the request of, the County.

Funds

<u>Certificate Reserve Fund</u>.

(a) There is established in trust a special fund designated as the “Certificate Reserve Fund” which shall be held by the Trustee and which shall be kept separate and apart from all other funds held by the Trustee. Moneys in the Certificate Reserve Fund shall be in the amount of the Certificate Reserve Fund Requirement and shall be used and withdrawn by the Trustee solely for the purposes set forth in the Trust Agreement.

(i) If, on any Interest Payment Date (or on any earlier date as specified in a Reserve Fund Credit Facility or Certificate Reserve Fund investment), the amount on deposit in the Interest Fund is insufficient to pay the interest due with respect to the Certificates and any Additional Certificates on such Interest Payment Date, the Trustee shall transfer from the Certificate Reserve Fund and deposit in the Interest Fund an amount sufficient to make up such deficiency.

(ii) If, on any Principal Payment Date or any Mandatory Sinking Account Payment Date (or on any earlier date as specified in a Reserve Fund Credit Facility or Certificate Reserve Fund investment), the amount on deposit in the Principal Fund is insufficient to pay the principal due with respect to the Certificates and any Additional Certificates on such Principal Payment Date or Mandatory Sinking Account Payment Date, the Trustee shall transfer from the Certificate Reserve Fund and deposit in the Principal Fund an amount sufficient to make up such deficiency.

(iii) Monies on deposit in the Certificate Reserve Fund shall be withdrawn and transferred by the Trustee to be applied for the final payment on the Certificates and any Additional Certificates.

In the event of any withdrawal or transfer from the Certificate Reserve Fund, the Trustee shall, within five days thereafter, provide written notice to the County of the amount and the date of such transfer. If at any time the balance in the Certificate Reserve Fund shall be reduced below the Certificate Reserve Fund Requirement, the first of Base Rental Payments thereafter payable by the County under the Refunding Sublease and not needed to pay the interest and principal components of Base Rental Payments payable by the County under the Refunding Sublease to the Owners on the next Interest Payment Date, Principal Payment Date or Mandatory Sinking Account Payment Date shall be used to increase the balance in the Certificate Reserve Fund to the Certificate Reserve Fund Requirement. If after the payment of principal and interest on any Interest Payment Date the balance in the Certificate Reserve Fund shall be in excess of the Certificate Reserve Fund Requirement the Trustee shall, upon Written Request of the County, transfer such excess first to the County for deposit in the Excess Earnings Account to the extent the amount on deposit therein is less than the Rebate Requirement, then to the County for deposit in the Administrative Expense Fund to the extent needed to pay reasonable and necessary operating expenses of the County relating to the Certificates and thereafter to the Principal Fund. At the termination of the Refunding Sublease in accordance with its terms, any balance remaining in the Certificate Reserve Fund shall be released and may be transferred to such other fund or account of the County, or otherwise used by the County for any other lawful purposes, as the County may direct in writing. For purposes of determining the amount on deposit in the Certificate Reserve Fund, all investments shall be valued annually at the amortized cost thereof (exclusive of accrued but unpaid interest, but inclusive of commissions). Investments in the Certificate Reserve Fund shall mature, or be subject to tender, redemption or withdrawal at the option of the holder thereof, not later than five years from the date of investment.

(b) At the option of the County, one or more Reserve Fund Credit Facilities may be substituted for the funds held by the Trustee in the Certificate Reserve Fund such that the amount available to be drawn under such Reserve Fund Credit Facilities together with funds remaining in the Certificate Reserve Fund satisfies the Certificate Reserve Fund Requirement.

If the County exercises its option to substitute a Reserve Fund Credit Facility for all or a portion of the moneys held by the Trustee in the Certificate Reserve Fund, then such moneys, on or after the date that the Reserve Fund Credit Facility becomes effective, at the option of the County, shall be transferred (A) to the Base Rental Payment Fund and on each applicable Principal Payment Date a pro rata portion thereof shall be transferred to the Principal Fund and used to pay a portion of the principal with respect to the Certificates due on such Principal Payment Date, or (B) to a construction fund to be held by the County and used for capital projects of the County in accordance with the Tax Certificate. Neither the County nor the Trustee may invest such amounts transferred so as to produce a yield greater than the yield permitted under the Tax Certificate. In the event any Reserve Fund Credit Facility is scheduled to terminate prior to the final maturity date of the Certificates and any Additional Certificates and such Reserve Fund Credit Facility is not extended, renewed or replaced with another Reserve Fund Credit Facility or with cash or Permitted Investments in the amount of such Reserve Fund Credit Facility, the Trustee shall draw on or make a claim under such Reserve Fund Credit Facility ten days prior to the date of such expiration in an amount equal to the lesser of (i) the maximum amount available thereunder or (ii) the Certificate Reserve Fund Requirement, in either case for deposit into the Certificate Reserve Fund.

In the event a Reserve Fund Credit Facility is substituted for all or a portion of the moneys held by the Trustee in the Certificate Reserve Fund pursuant to the terms of the Trust Agreement, then, notwithstanding any other provision of the Trust Agreement, (1) the Trustee shall draw upon the Reserve Fund Credit Facility for amounts which the terms of the Trust Agreement require to be transferred from the Certificate Reserve Fund; provided that the Trustee shall first draw upon any cash or Permitted Investments on deposit in the Certificate Reserve Fund before drawing upon any Reserve Fund Credit Facility, and thereafter shall draw upon all such Reserve Fund Credit Facilities on a pro rata basis, and (2) amounts required by the terms of the Trust Agreement to be deposited or transferred to the Certificate Reserve Fund (a) in the event the Reserve Fund Credit Facility has been drawn upon, shall be first paid to the provider of such Reserve Fund Credit Facility if the County has an outstanding reimbursement obligation to such provider resulting from such draw, which payment shall result in an increase in the amount then available under the Reserve Fund Credit Facility equal to such payment and (b) to the extent all such draws on Reserve Fund Credit Facilities have been paid, then, second, shall be transferred or deposited to the Certificate Reserve Fund in amount such that after giving effect to the deposit the amount on deposit in the Certificate Reserve Fund is equal to the Certificate Reserve Fund Requirement.

The County shall be permitted to make use of a Reserve Fund Credit Facility pursuant to the Trust Agreement at any time.

The term "substitution" as used above shall include such initial funding of the Certificate Reserve Fund Requirement by means of a Reserve Fund Credit Facility instead of by deposit of moneys, and shall not be read to mean that the County must first make an initial cash deposit in the Certificate Reserve Fund before invoking the provisions of the Trust Agreement relating to Reserve Fund Credit Facilities and satisfying the Certificate Reserve Fund Requirement by securing and implementing a Reserve Fund Credit Facility.

Cost of Issuance Fund. There is established in trust a special fund designated as the "Cost of Issuance Fund" which shall be held by the Trustee and which shall be kept separate and apart from all other funds held by the Trustee. The moneys in the Costs of Issuance Fund shall be applied to the payment of Costs of Issuance of the Certificates, upon a Written Request of the County. All payments from the Costs of Issuance Fund shall be reflected in the Trustee's regular accounting statements. On or before February 1, 2006, the Trustee shall transfer any amounts then remaining in the Cost of Issuance Fund first to the County for deposit in the Excess Earnings Account to the extent the amount on deposit therein is less than the Rebate Requirement, then to the Certificate Reserve Fund to the extent the amount on deposit therein is less than the Certificate Reserve Fund Requirement, then to the Administrative Expense Fund to the extent that the amount on deposit therein is less than $20,000, and thereafter to the Interest Fund.

Administrative Expense Fund.

(a) There is established in trust a special fund designated as the "Administrative Expense Fund" which shall be held by the Trustee and which shall be kept separate and apart from all other funds held by the Trustee.

(b) Amounts in the Administrative Expense Fund shall be paid out from time to time for reasonable and necessary operating expenses of the County relating to the Certificates including, without limitation, expenses incidentally incurred in connection with the purchase or prepayment of any Certificates, which expenses shall not include the payment of principal or interest with respect to any Certificates, upon a Written Request of the County.

(c) Amounts in the Administrative Expense Fund in excess of $20,000 shall be transferred by the Trustee to the Principal Fund.

Earnings Fund. The County shall establish, maintain and hold in trust a special fund separate from any other fund or account established and maintained under the Trust Agreement designated as the "Earnings Fund." The County shall administer the Earnings Fund as provided in the Trust Agreement.

The County shall establish and maintain in the Earnings Fund a separate account designated as the "Investment Earnings Account," and a separate account designated as the "Excess Earnings Account." All moneys in the Investment Earnings Account and the Excess Earnings Account shall be held by the County in trust and shall be kept separate and apart from all other funds and money held by the County. All investment earnings on the funds and accounts (other than the Excess Earnings Account) established under the Trust Agreement shall be deposited into the Investment Earnings Account. Amounts on deposit in the Investment Earnings Account shall be transferred to the Excess Earnings Account in accordance with the provisions of the Tax Certificate.

Upon each transfer, any amount remaining in the Earnings Fund or any amount on deposit in the Excess Earnings Account which exceeds the amount required to be maintained therein pursuant to the provision of the Tax Certificate shall be transferred first, to the Certificate Reserve Fund so that following such deposit there shall be on deposit in the Certificate Reserve Fund an amount at least equal to the Certificate Reserve Fund Requirement, and then, for deposit in the Base Rental Payment Fund by the County. Except as set forth in the proceeding sentence, amounts on deposit in the Excess Earnings Account shall only be applied to payments made to the United States in accordance with written instructions of the County.

Rental Payments

Pledge of Base Rental Payments and Additional Rental; Base Rental Payment Fund.

(a) There is established a special fund designated as the "Base Rental Payment Fund" which shall be held by the Trustee and which shall be kept separate and apart from all other funds and moneys held by the Trustee. The County irrevocably pledges and transfers to the Trustee, for the benefit of the Owners, all of its right, title and interest in and to all amounts on deposit from time to time in the funds and accounts established under the Trust Agreement and in and to the Base Rental Payments, which shall be used for the punctual payment of the interest and principal represented by the Certificates and any Additional Certificates and the Base Rental Payments shall not be used for any other purpose while any of the Certificates or Additional Certificates remain Outstanding. It is the intent of the parties to the Trust Agreement that the Corporation shall not have any right, title, in or to the Base Rental Payments. In the event, however, that it should be determined that the Corporation has any right, title or interest in or to the Base Rental Payments, then the Corporation irrevocably pledge and transfer to the Trustee, for the benefit of the Owners, all of such right, title and interest, which shall be used for the punctual payment of the interest and principal represented by the Certificates and any Additional Certificates. These pledges shall constitute a first and exclusive lien on the funds established under the Trust Agreement and the Base Rental Payments in accordance with the terms of the Trust Agreement subject in all events to the power of the County to cause the execution and delivery of Additional Certificates pursuant to the Trust Agreement which shall be on a parity with the Certificates and any Additional Certificates Outstanding.

(b) All Base Rental Payments shall be paid directly by the County to the Trustee, and if received by the Corporation at any time shall be deposited by the Corporation, as the case may be, with the Trustee within one Business Day after the receipt thereof. All Base Rental Payments, the proceeds of rental interruption insurance and liquidated damages, if any, shall be deposited by the Trustee in the Base Rental Payment Fund and all amounts on deposit therein shall be held in trust by the Trustee, which fund the Trustee agrees to establish and maintain for the benefit of the Owners until all required Base Rental Payments are paid in full pursuant to the Refunding Sublease or until such date as the Certificates and any Additional Certificates are no longer Outstanding; *provided, however,* and notwithstanding the foregoing, if the Trustee receives a Base Rental Payment amount in excess of the amount necessary to pay the amount due and owing on the next Interest Payment Date, Principal Payment Date or Mandatory Sinking Account Payment Date, as the case may be, after giving effect to the funds then on deposit in the Base Rental Payment Fund not needed for any other purpose under the Trust Agreement, and if the amount then in the Certificate Reserve Fund is at least equal to the Certificate Reserve Fund Requirement and there exists no Event of Default under the Trust Agreement, then amounts in the Base Rental Payment Fund not needed to make such payments may be utilized by the Trustee, as directed in writing by the County, to make any regular periodic payment due to provider of a Reserve Fund Credit Facility or a Certificate Reserve Fund investment which provides for such payments, if any, or for any other purpose.

<u>Deposit of Base Rental Payments</u>. Except as otherwise provided in the Trust Agreement, the Trustee shall deposit the amounts in the Base Rental Payment Fund at the time and in the priority and manner provided in the Trust Agreement in the following respective funds, each of which the Trustee agrees to establish and maintain until all required Base Rental Payments are paid in full pursuant to the Refunding Sublease or until such date as the Certificates and any Additional Certificates are no longer Outstanding, and the moneys in each of such funds shall be disbursed only for the purposes and uses authorized in the Trust Agreement.

(a) *Interest Fund*. The Trustee, on each Interest Payment Date, shall deposit in the Interest Fund a sufficient amount of money such that the aggregate of amounts therein equal the portion of the Base Rental Payments designated as the interest component coming due on such Interest Payment Date. Moneys in the Interest Fund shall be used by the Trustee for the purpose of paying the interest evidenced by the Certificates and the Additional Certificates when due and payable.

(b) *Principal Fund*. The Trustee, on each Principal Payment Date and Mandatory Sinking Account Payment Date, shall deposit in the Principal Fund a sufficient amount of money such that the aggregate of amounts therein equal the portion of the Base Rental Payments designated as the principal component coming due on such Principal Payment Date or Mandatory Sinking Account Payment Date. Monies in the Principal Fund shall be used and withdrawn by the Trustee for the purpose of paying the principal represented by the Certificates and any Additional Certificates when due and payable at maturity or upon earlier prepayment from Mandatory Sinking Account Payments.

(c) *Prepayment Fund*. The Trustee, on the prepayment date specified in the Written Request of the County filed with the Trustee at the time that any prepaid Base Rental Payment is paid to the Trustee pursuant to the Refunding Sublease, shall deposit in the Prepayment Fund that amount of moneys representing the portion of the Base Rental Payments designated as prepaid Base Rental Payments. Monies in the Prepayment Fund shall be used and withdrawn by the Trustee for the purpose of paying the principal, premium, if any, and interest represented by the Certificates and any Additional Certificates to be prepaid.

Application of Insurance Proceeds and Condemnation Awards. The Trustee shall not be responsible for the sufficiency of any insurance required by either Sublease and shall be fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss agreed to by the County or the Corporation. Delivery to the Trustee of the schedule of insurance policies under the Refunding Sublease shall not confer responsibility upon the Trustee as to the sufficiency of coverage or amounts of such policies.

Except as provided in the Trust Agreement, in the event of any damage to or destruction of any part of the Refunding Property, caused by the perils covered by the policies of insurance required to be maintained by the County pursuant to the Refunding Sublease, the County and the Corporation shall cause the proceeds of such insurance (other than rental interruption insurance which is to be placed in the Base Rental Payment Fund) to be used in accordance with the Refunding Sublease. The Trustee shall hold said proceeds in a separate fund to be established and maintained by the Trustee and designated the "Insurance Proceeds and Condemnation Awards Fund." The Trustee shall only make disbursements from the Insurance Proceeds and Condemnation Awards Fund upon receipt of a Written Request of the County on behalf of the Corporation, signed by a Chief Financial Officer, County Treasurer-Tax Collector, the Capital Finance Manager or other officers who are specifically authorized by resolution of the Board of Supervisors of the County to sign or execute the same) which (i) states with respect to each disbursement to be made: (A) the requisition number, (B) the name and address of the person, firm or authority to whom payment is due, (C) the amount to be disbursed, and (D) that each obligation therein has been properly incurred for the purpose of repair, reconstruction or replacement of the Refunding Property to at least the same good order, repair and condition as it was in prior to the damage or destruction, insofar as the same may be accomplished by the use of said proceeds and is a proper charge against the Insurance Proceeds and Condemnation Awards Fund and has not been the basis of any previous disbursement; (ii) specifies in reasonable detail the nature of the obligation; and (iii) is accompanied by a bill or statement of account for each obligation. Any balance of said proceeds not required for such repair, reconstruction or replacement as evidenced by a Certificate of the County to the effect that such repair, reconstruction or replacement has been completed and all amounts owing therefor have been paid or provision for the payment therefor has been made shall be transferred by the Trustee to Prepayment Fund and applied in the manner provided by the Trust Agreement. Alternatively, the County, at its option, and if the proceeds of such insurance together with any other moneys then available for the purpose are at least sufficient to prepay all Outstanding Certificates and Additional Certificates, may elect not to repair, reconstruct or replace the damaged or destroyed portion of the Refunding Property and thereupon shall cause said proceeds to be transferred to the Prepayment Fund and used for the prepayment of Outstanding Certificates and Additional Certificates pursuant to the Trust Agreement; provided, that if the County elects to so prepay the Outstanding Certificates and Additional Certificates, then the County shall make said election within 45 days after the damage to or destruction of the Refunding Property. Notwithstanding any other provision in the Trust Agreement, the County shall only prepay less than all of the Outstanding Certificates and Additional Certificates if the annual fair rental value of the Refunding Property after such damage, destruction or condemnation is at least equal to the aggregate annual amount of principal and interest represented by the Outstanding Certificates and Additional Certificates not being prepaid.

The proceeds of any award in eminent domain shall be transferred by the County to the Trustee for deposit in the Prepayment Fund and applied to the prepayment of Outstanding Certificates and Additional Certificates pursuant to the Trust Agreement.

Title Insurance. Proceeds of any policy of title insurance received by the County, the Corporation or the Trustee in respect of the Property shall be applied and disbursed by the County, the Corporation or the Trustee as follows:

(a) If the County determines that the title defect giving rise to such proceeds has not materially affected the operation of the Property and will not result in an abatement of Rental Payments payable by the County under the applicable Sublease, such proceeds shall be deposited first in the Excess Earnings Account to the extent the amount on deposit therein is less than the Rebate Requirement, then in the Certificate Reserve Fund to the extent that the amount therein is less than the Certificate Reserve Fund Requirement, then in the Administrative Expense Fund to the extent needed to pay reasonable and necessary operating expenses of the County with respect to the Certificates, and thereafter amounts not required to be so deposited shall be remitted to the County and used for any lawful purpose thereof; or

(b) If any portion of the Refunding Property has been affected by such title defect, and if the County determines that such title defect will result in an abatement of Rental Payments payable by the County under the Refunding Sublease, then the County, the Corporation or the Trustee shall immediately deposit such proceeds in the Prepayment Fund and such proceeds shall be applied to the prepayment of Certificates and Additional Certificates in the manner provided in the Trust Agreement.

Covenants

Compliance with Trust Agreement. The Trustee will not execute or deliver any Certificates or Additional Certificates in any manner other than in accordance with the provisions of the Trust Agreement, and neither of the County nor the Corporation will suffer or permit any default by them to occur under the Trust Agreement, but will faithfully comply with, keep, observe and perform all the agreements, conditions, covenants and terms of the Trust Agreement required to be complied with, kept, observed and performed by them.

Compliance with Refunding Lease and Refunding Sublease. The County and the Corporation will faithfully comply with, keep, observe and perform all the agreements, conditions, covenants and terms contained in the Refunding Lease and Refunding Sublease required to be complied with, kept, observed and performed by them and, together with the Trustee, will enforce the Refunding Lease and Refunding Sublease against the other party thereto in accordance with their respective terms.

Observance of Laws and Regulations. The Trustee, the County and the Corporation will faithfully comply with, keep, observe and perform all valid and lawful obligations or regulations now or hereafter imposed on them by contract, or prescribed by any law of the United States of America or of the State of California, or by any officer, board or commission having jurisdiction or control, as a condition of the continued enjoyment of each and every franchise, right or privilege now owned or hereafter acquired by them, including their right to exist and carry on their respective businesses, to the end that such franchises, rights and privileges shall be maintained and preserved and shall not become abandoned, forfeited or in any manner impaired.

Other Liens. The County will keep the Property and all parts thereof free from judgments and materialmen's and mechanics' liens and free from all claims, demands, encumbrances and other liens of whatever nature or character, other than Permitted Encumbrances (with respect to the the Refunding Property, as such term is defined in the Refunding Sublease) and free from any claim or liability which materially impairs the County in conducting its business or utilizing the Refunding Property, and the Trustee at its option (after first giving the County ten days' written notice to comply therewith and failure of the County to take any necessary steps to defend against or to so comply within such ten-day period) may defend against any and all actions or proceedings in which the validity of the Trust Agreement is or might be questioned, or may pay or compromise any claim or demand asserted in any such actions or proceedings; *provided, however*, that, in defending against any such actions or proceedings or in paying or compromising any such claims or demands, the Trustee shall not in any event be deemed to have waived or released the County from liability for or on account of any of its agreements and covenants contained in the Trust Agreement, or from its liability under the Trust Agreement to defend the validity of the Trust Agreement and to perform such agreements and covenants. The Trustee shall have no liability with respect to any determination made in good faith to proceed or decline to defend, pay or compromise any such claim or demand.

So long as any Certificates or Additional Certificates are Outstanding, neither the County nor the Corporation will create or suffer to be created any pledge of or lien on the Base Rental Payments other than as provided or permitted under the Trust Agreement.

Prosecution and Defense of Suits. The County will promptly take such action from time to time as may be necessary or proper, in its reasonable discretion, to remedy or cure any known cloud upon or defect in the title to the Property or any portion thereof, whether now existing or hereafter developing, and will prosecute all actions, suits or other proceedings as may be appropriate for such purpose.

Accounting Records and Statements. The Trustee will keep proper accounting records in which complete and correct entries shall be made of all transactions made by it relating to the receipt, deposit and disbursement of the Base Rental Payments, and such accounting records shall be available for inspection by the County or the Corporation at reasonable hours, under reasonable conditions and with reasonable notice. The Trustee shall deliver a monthly accounting to the County; provided that the Trustee shall not be obligated to report as to any fund or account that (a) has a balance of zero and (b) has not had any activity since the last reporting date.

Recordation and Filing. The Corporation will file, record, register, renew, refile and rerecord all such documents, including financing statements (or continuation statements in connection therewith), as may be required by law in order to maintain the Refunding Lease, Refunding Sublease, Assignment Agreement and the Trust Agreement at all times as a security interest in the Base Rental Payments, all in such manner, at such times and in such places as may be required and to the extent permitted by law in order to perfect, preserve and protect fully the security of the Owners and the rights and security interests of the Trustee, and the Corporation will do whatever else may be necessary or be reasonably required in order to perfect and continue the liens of the Refunding Lease, Refunding Sublease, Assignment Agreement and the Trust Agreement.

Further Assurances. Whenever and so often as requested to do so by the Trustee or any Owner, the County and the Corporation will promptly execute and deliver or cause to be executed and delivered all such other and further assurances, documents or instruments and promptly do or cause to be done all such other and further things as may be necessary or reasonably required in order to further and more fully vest in the Trustee and the Owners all advantages, benefits, interests, powers, privileges and rights conferred or intended to be conferred upon them by the Trust Agreement or by the Assignment Agreement, Refunding Sublease or Refunding Lease.

Excess Earnings Account of the Earnings Fund; Tax Covenants. (a) The County shall establish and maintain an account separate from any other fund or account established and maintained under the Trust Agreement designated as the "Excess Earnings Account." There shall be deposited in the Excess Earnings Account such amounts as are required to be deposited therein pursuant to the Tax Certificate. All money at any time deposited in the Excess Earnings Account shall be held by the County in trust, to the extent required to satisfy the Rebate Requirement, for payment to the United States of America. Notwithstanding defeasance of the Certificates and the Additional Certificates pursuant to the Trust

Agreement or anything to the contrary contained in the Trust Agreement, all amounts required to be deposited into or on deposit in the Excess Earnings Account shall be governed exclusively by the provisions of the Trust Agreement described under the caption "—Excess Earnings Account of the Earnings Fund; Tax Covenants" and by the Tax Certificate (which is incorporated in the Trust Agreement by reference). The Trustee shall have no duty or obligation to monitor the compliance by the County with the requirements of the Tax Certificate.

(b) Any funds remaining in the Excess Earnings Account after payment in full of all of the Certificates and any Additional Certificates and after payment of any amounts described in the provisions of the Trust Agreement described under the caption "—Excess Earnings Account of the Earnings Fund; Tax Covenants", shall be withdrawn by the County to be used for any lawful purpose.

<u>Continuing Disclosure</u>. The County and the Trustee, in its capacity as dissemination agent, covenant and agree that they will comply with and carry out all of the provisions of the Continuing Disclosure Agreement. Notwithstanding any other provision of the Trust Agreement, failure of the County or the Trustee to comply with the Continuing Disclosure Agreement shall not be considered an Event of Default; however, the Trustee may (and, at the request of the Purchasers or the Owners of at least 25% aggregate principal amount of Outstanding Certificates, shall) or any Owner or Beneficial Owner of Certificates may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the County or the Trustee, as the case may be, to comply with its obligations under this paragraph; *provided*, that the Trustee shall only be required to take an action under this paragraph to the extent funds have been provided to it or it has been otherwise indemnified to its reasonable satisfaction from any cost, liability, expense or additional charges of the Trustee whatsoever, including, without limitation, fees and expenses of its attorneys.

Default and Limitations of Liability

<u>Events of Default</u>. The following events shall be Events of Default:

(a) default in the due and punctual payment of the principal of or premium, if any, on any Certificate or Additional Certificate when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for prepayment, by declaration or otherwise;

(b) default in the due and punctual payment of any installment of interest on any Certificate or Additional Certificate when and as such interest installment shall become due and payable;

(c) default by the County in the observance of any of the covenants, agreements or conditions on its part in the Trust Agreement contained, if such default shall have continued for a period of 30 days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the County and the Corporation by the Trustee, or to the County, the Corporation and the Trustee by the Owners of not less than 25% in aggregate principal amount of the Certificates and Additional Certificates at the time Outstanding; *provided, however*, that if such default can be remedied but not within such 30-day period and if the County has taken all action reasonably possible to remedy such default within such 30-day period, such default shall not become an Event of Default for so long as the County shall diligently proceed to remedy the same in accordance with and subject to any directions or limitations of time reasonably established by the Trustee; or

(d) an event of default shall have occurred and be continuing under the Refunding Sublease.

Action on Default. Subject to the Trust Agreement, in each and every case during the continuance of an Event of Default, the Trustee or the Owners of not less than a majority in aggregate principal amount represented by the Certificates and any Additional Certificates at the time Outstanding (subject to the provisions of the Trust Agreement) shall be entitled, upon notice in writing to the County and the Corporation to exercise any of the remedies granted to the County under the Refunding Lease, to the Corporation under the Refunding Sublease, and in addition, to take whatever action at law or in equity may appear necessary or desirable to enforce its rights as assignee pursuant to the Assignment Agreement or to protect and enforce any of the rights vested in the Trustee or the Owners by the Trust Agreement or by the Certificates and any Additional Certificates, either at law or in equity or in bankruptcy or otherwise, whether for the specific enforcement of any covenant or agreement or for the enforcement of any other legal or equitable right, including any one or more of the applicable remedies set forth in the Trust Agreement.

Other Remedies of the Trustee. The Trustee shall have the right:

(a) by mandamus or other action or proceeding or suit at law or in equity to enforce its rights against the County, the Corporation or any director, officer or employee thereof, and to compel the County or the Corporation or any such director, officer or employee to perform or carry out its or his or her duties under law and the agreements and covenants required to be performed by it or him or her contained in the Trust Agreement;

(b) by suit in equity to enjoin any acts or things which are unlawful or violate the rights of the Trustee; or

(c) by suit in equity upon the happening of any default under the Trust Agreement to require the County and the Corporation to account as the trustee of an express trust.

Non-Waiver. A waiver of any default or breach of duty or contract by the Trustee shall not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract. No delay or omission by the Trustee to exercise any right or remedy accruing upon any default or breach of duty or contract shall impair any such right or remedy or shall be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Trustee by law or by the Trust Agreement may be enforced and exercised from time to time and as often the Trustee shall deem expedient.

If any action, proceeding or suit to enforce any right or to exercise any remedy is abandoned or determined adversely to the Trustee or any Owner or Owners, then subject to any adverse determination, the Trustee or such Owner or Owners and the County and the Corporation shall be restored to their former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

Remedies Not Exclusive. No remedy conferred upon or reserved to the Trustee in the Trust Agreement is intended to be exclusive of any other remedy, and each such remedy shall be cumulative and shall be in addition to every other remedy given under the Trust Agreement or now or hereafter existing at law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by any law. The assertion or employment of any right or remedy under the Trust Agreement, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

No Liability by the Corporation or the County to the Owners. Except as expressly provided in the Trust Agreement, the Corporation shall have no obligation or liability to the Owners with respect to the payment when due of the Base Rental Payments by the County, or with respect to the performance by the County of the other agreements and covenants required to be performed by it contained in the Refunding Sublease or in the Trust Agreement, or with respect to the performance by the Trustee of any right or obligation required to be performed by it contained in the Trust Agreement.

No Liability by the County to the Owners. Except for the payment when due of the Base Rental Payments and the performance of the other agreements and covenants required to be performed by it contained in the Refunding Sublease or in the Trust Agreement, the County shall not have any obligation or liability to the Owners with respect to the Trust Agreement or the preparation, execution, delivery or transfer of the Certificates or the disbursement of the Base Rental Payments by the Trustee to the Owners, or with respect to the performance by the Trustee of any right or obligation required to be performed by it contained in the Trust Agreement.

No Liability by the Trustee to the Owners. Except as expressly provided in the Trust Agreement, the Trustee shall not have any obligation or liability to the Owners with respect to the payment when due of the Base Rental Payments by the County, or with respect to the performance by the County or the Corporation of the other agreements and covenants required to be performed by them, respectively contained in the Refunding Lease or Refunding Sublease or in the Trust Agreement.

Application of Amounts After Default. Notwithstanding anything to the contrary contained in the Trust Agreement, after a default by the County, all funds and accounts held by the Trustee and all payments received by the Trustee with respect to the rental of the Refunding Property after a default by the County pursuant to the Refunding Sublease, and all damages or other payments received by the Trustee for the enforcement of any rights and powers of the Trustee under the Refunding Sublease, shall be deposited into the Base Rental Payment Fund and as soon as practicable thereafter applied:

(a) to the payment of all amounts due the Trustee under the Trust Agreement; and

(b) to the payment of all amounts then due as interest with respect to the Certificates and any Additional Certificates, and thereafter to the payment of all amounts due as principal with respect to the Certificates and any Additional Certificates, in respect of which or for the benefit of which, money has been collected (other than Certificates and any Additional Certificates which have matured or otherwise become payable prior to such Event of Default and money for the payment of which is held by the Trustee), ratably without preference or priority of any kind, according to the amounts due and payable with respect to such Certificates and Additional Certificates.

Trustee May Enforce Claims Without Possession of Certificates. All rights of action and claims under the Trust Agreement or the Certificates and any Additional Certificates may be prosecuted and enforced by the Trustee without the possession of any of the Certificates or Additional Certificates or the production thereof in any proceeding relating thereto, and any such proceeding instituted by the Trustee shall be brought in its own name as trustee of an express trust, and any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, be for the ratable benefit of the Owners of the Certificates or Additional Certificates in respect of which such judgment has been recovered.

Limitation on Suits. No Owner of any Certificate or Additional Certificate shall have any right to institute any proceeding, judicial or otherwise, with respect to the Trust Agreement, or for the appointment of a receiver or trustee, or for any other remedy under the Trust Agreement, unless such

Owner has previously given written notice to the Trustee of a continuing Event of Default; the Owners of not less than 25% in principal amount of the Outstanding Certificates and Additional Certificates shall have made written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee under the Trust Agreement; such Owner or Owners have afforded to the Trustee indemnity reasonably satisfactory to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request; the Trustee for 60 days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceedings; and no direction inconsistent with such written request has been given to the Trustee during such 60-day period by the Owners of a majority in principal amount of the Outstanding Certificates and Additional Certificates; it being understood and intended that no one or more Owners of Certificates and Additional Certificates shall have any right in any manner whatever by virtue of, or by availing of, any provision of the Trust Agreement to affect, disturb or prejudice the rights of any other Owner of Certificates or Additional Certificates, or to obtain or seek to obtain priority or preference over any other Owner or to enforce any right under the Trust Agreement, except in the manner provided in the Trust Agreement and for the equal and ratable benefit of all the Owners of Certificates and Additional Certificates. Nothing in the Trust Agreement contained shall, however, affect or impair the right of any Owner to enforce the payment of the principal component of or the prepayment price of and the interest component of the Base Rental Payments represented by any Certificate or Additional Certificate at and after the maturity or earlier prepayment.

The Trustee

Employment of the Trustee. The County and the Corporation appoint and employ the Trustee to receive, deposit and disburse the Rental Payments, to prepare, execute, deliver and transfer the Certificates and Additional Certificates and to perform the other functions contained in the Trust Agreement; all in the manner provided in the Trust Agreement and subject to the conditions and terms of the Trust Agreement. By executing and delivering the Trust Agreement, the Trustee accepts the appointment and employment referred to in the Trust Agreement and accepts the rights and obligations of the Trustee provided in the Trust Agreement, subject to the conditions and terms of the Trust Agreement. The Trustee undertakes to perform such duties and only such duties as are specifically set forth in the Trust Agreement, and no implied covenants or obligations shall be read into the Trust Agreement against the Trustee. In case an Event of Default has occurred and is continuing, the Trustee shall exercise such of the rights and powers vested in it by the Trust Agreement, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of his own affairs.

Duties, Removal and Resignation of the Trustee. The County and the Corporation may, by an instrument in writing and upon 30 days written notice remove the Trustee initially a party to the Trust Agreement and any successor thereto unless an Event of Default shall have occurred and then be continuing, and shall remove the Trustee initially a party to the Trust Agreement and any successor thereto if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Owners of a majority in aggregate principal amount represented by the Certificates and Additional Certificates at the time Outstanding (or their attorneys duly authorized in writing), but any such successor Trustee shall be a bank with trust powers or trust company doing business and having a principal corporate trust office in California or New York, having (or if such bank or trust company is a member of a bank holding company system, its bank holding company has) a combined capital (exclusive of borrowed capital) and surplus of at least seventy-five million dollars ($75,000,000) and subject to supervision or examination by federal or state authorities. If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of the Trust Agreement the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

The Trustee may at any time resign by giving written notice of such resignation to the County, the Corporation and the Insurer and by mailing notice, first class, postage prepaid, of such resignation to the Owners at their addresses appearing on the books required to be kept by the Trustee pursuant to the provisions of the Trust Agreement. Upon receiving such notice of resignation, the County and the Corporation shall promptly appoint a successor Trustee by an instrument in writing; provided, however, that in the event the County and the Corporation do not appoint a successor Trustee within 30 days following receipt of such notice of resignation, the resigning Trustee may, at the expense of the County, petition the appropriate court having jurisdiction to appoint a successor Trustee. Any resignation or removal of a Trustee and appointment of a successor Trustee shall become effective only upon acceptance of appointment by the successor Trustee.

For such time as the Bond Insurance Policy shall be in full force and effect and so long as the Insurer is not in default under its Bond Insurance Policy (1) the Trustee may be removed at any time, at the request of the Insurer, for any breach of the trust set forth in the Trust Agreement, (2) the Insurer shall receive prior written notice of any Trustee resignation, (3) every successor Trustee appointed pursuant to this Section shall be a trust company or bank in good standing located in or incorporated under the laws of the State, duly authorized to exercise trust powers and subject to examination by federal or state authority, having a reported capital and surplus of not less than $75,000,000 and acceptable to the Insurer, and (4) no removal, resignation or termination of the Trustee shall take effect until a successor, acceptable to the Insurer, shall be appointed.

<u>Compensation and Indemnification of the Trustee</u>. The County shall from time to time, subject to any written agreement then in effect with the Trustee, pay the Trustee reasonable compensation for all its services rendered under the Trust Agreement and reimburse the Trustee for all its advances and expenditures under the Trust Agreement, including but not limited to payments due any provider of a Reserve Fund Credit Facility or Certificate Reserve Fund investment which provides for such payments, advances to and fees and expenses of accountants, agents, appraisers, consultants or other experts, and counsel not directly employed by the Trustee but an attorney or firm of attorneys retained by the Trustee, employed by it in the exercise and performance of its rights and obligations under the Trust Agreement; *provided, however,* that the Trustee shall not have any lien for such compensation or reimbursement against any moneys held by it in any of the funds or accounts established under the Trust Agreement or under either Sublease (except that such compensation or reimbursement may be made from the Cost of Issuance Fund held by the County to the extent provided in the Trust Agreement or as provided in the Trust Agreement). The Trustee may take whatever legal actions are lawfully available to it directly against the County or the Corporation. The rights of the Trustee under the Trust Agreement are in addition to the rights granted to the Trustee pursuant to the Refunding Sublease.

Except as otherwise expressly provided in the Trust Agreement, no provision of the Trust Agreement shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties under the Trust Agreement or in the exercise of any of its rights or powers under the Trust Agreement.

The County covenants and agrees to indemnify and save the Trustee and its officers, directors, agents and employees, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise and performance of its powers and duties under the Trust Agreement, including the costs of expenses of defending against any claim of liability including, without limitation, any claim arising out of the use, presence, storage, disposal or release of any Hazardous Substances on or about the Property, but excluding any and all losses, expenses and liabilities which are due to the negligence or intentional misconduct of the Trustee, its officers, directors, agents or employees. Such indemnity shall survive the discharge of the Trust Agreement or the resignation or removal of the Trustee.

Protection of the Trustee. The Trustee shall be protected and shall incur no liability in acting or proceeding in good faith upon any affidavit, bond, certificate, consent, opinion, notice, request, requisition, resolution, direction, instruction, statement, telegram, voucher, waiver or other paper or document which it shall in good faith believe to be genuine and to have been adopted, executed or delivered by the proper party or pursuant to any of the provisions of the Trust Agreement, and the Trustee shall be under no duty to make any investigation or inquiry as to any statements contained or matters referred to in any such instrument, but may accept and rely upon the same as conclusive evidence of the truth and accuracy of such statements. The Trustee shall not be bound to recognize any person as an Owner of any Certificate or Additional Certificate or to take any action at the request of any such person unless such Certificate or Additional Certificate shall be deposited with the Trustee or satisfactory evidence of the ownership of such Certificate or Additional Certificate shall be furnished to the Trustee. The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by the Trust Agreement at the request or direction of any of the Owners of the Certificates or Additional Certificates pursuant to the Trust Agreement, unless such Owners shall have offered to the Trustee security or indemnity reasonably satisfactory to the Trustee, against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction. The Trustee may consult with counsel, who may be counsel to the County or the Corporation, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect to any action taken or suffered by it under the Trust Agreement in good faith in accordance therewith. If requested by the County, counsel to the Trustee shall be of recognized national standing in the field of law relating to municipal bonds.

The Trustee shall not be responsible for the sufficiency or adequacy of the Certificates or any Additional Certificates, the Refunding Lease, the Refunding Sublease, or of the assignment made to it by the Assignment Agreement, or for statements made in the preliminary or final official statement relating to the Certificates or any Additional Certificates, or of the title to or value of the Refunding Property.

The Trustee shall not be required to take notice or be deemed to have notice of any default or Event of Default under the Trust Agreement or an Event of Default under the Trust Agreement, except failure of any of the payments to be made to the Trustee required to be made under the Trust Agreement unless the Trustee shall be specifically notified in writing of such default or Event of Default by the County, the Corporation or by the Owners of not less than 25% in aggregate principal amount represented by the Certificates and Additional Certificates then Outstanding.

Whenever in the administration of its rights and obligations under the Trust Agreement the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Trust Agreement, such matter (unless other evidence in respect thereof be specifically prescribed in the Trust Agreement) may be deemed to be conclusively proved and established by a Certificate of the County, and such certificate shall be full warrant to the Trustee for any action taken or suffered under the provisions of the Trust Agreement upon the faith thereof, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable.

The Trustee may buy, sell, own, hold and deal in any of the Certificates and Additional Certificates and may join in any action which any Owner may be entitled to take with like effect as if the Trustee were not a party to the Trust Agreement. The Trustee, either as principal or agent, may also engage in or be interested in any financial or other transaction with the County or the Corporation, and may act as agent, depository or trustee for any committee or body of Owners or of owners of obligations of the Corporation or the County as freely as if it were not the Trustee under the Trust Agreement.

The Trustee may, to the extent reasonably necessary, execute any of the trusts or powers of the Trust Agreement and perform any rights and obligations required of it under the Trust Agreement by or through agents, attorneys or receivers, and shall be entitled to advice of counsel concerning all matters of trust and its rights and obligations under the Trust Agreement, and the Trustee shall not be answerable for the default or misconduct of any such agent, attorney or receiver selected by it with reasonable care. The Trustee shall not be liable for any error of judgment made by it in good faith unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts.

The Trustee shall not be answerable for the exercise of any trusts or powers under the Trust Agreement or for anything whatsoever in connection with the funds established under the Trust Agreement, except only for its own willful misconduct or negligence.

The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in accordance with the direction of the Owners of not less than a majority (or other percentage provided for in the Trust Agreement) in aggregate principal amount of the Certificates at the time Outstanding relating to the exercise of any right or remedy available to the Trustee under the Trust Agreement.

The Trustee makes no representation or warranty, express or implied as to the title, value, design, compliance with specifications or legal requirements, quality, durability, operation, condition, merchantability or fitness for any particular purpose or fitness for the use contemplated by the County of the Property. In no event shall the Trustee be liable for incidental, indirect, special or consequential damages in connection with or arising from the Refunding Sublease, the Refunding Lease or the Trust Agreement for the existence, furnishing or use of the Refunding Property.

Every provision of the Trust Agreement, the Refunding Lease, the Refunding Sublease and the Assignment Agreement relating to the conduct or liability of the Trustee shall be subject to the provisions of the Trust Agreement.

In acting as Trustee under the Trust Agreement, the Trustee acts solely in its capacity as Trustee for the Owners and not in its individual or personal capacity, and all persons, including without limitation, the Owners, the County and the Corporation, having any claim against the Trustee shall look only to the funds and accounts held by the Trustee under the Trust Agreement for payment, except as otherwise specifically provided in the Trust Agreement. Under no circumstances shall the Trustee be liable in its individual capacity for the obligations evidenced by the Certificates.

The recitals of facts, covenants and agreements in the Trust Agreement and in the Certificates shall be taken as statements, covenants and agreements of the County or the Corporation, as the case may be, and the Trustee assumes no responsibility for the correctness of the same.

Amendment of or Supplement to Trust Agreement

Amendment or Supplement. The Trust Agreement and the rights and obligations of the County, the Corporation, the Owners and the Trustee under the Trust Agreement may be amended or supplemented at any time by an amendment of the Trust Agreement or supplement to the Trust Agreement which shall become binding when the written consents of the Owners of a majority in aggregate principal amount of the Certificates and Additional Certificates then Outstanding, exclusive of Certificates and Additional Certificates disqualified as provided in the Trust Agreement, are filed with the Trustee. No such amendment or supplement shall (1) extend the Principal Payment Date of any Certificate or Additional Certificate or reduce the rate of interest represented thereby or extend the time of payment of such interest or reduce the amount of principal represented thereby or reduce the amount of any Mandatory Sinking Account Payment without the prior written consent of the Owner of each

Certificate and Additional Certificate so affected, or (2) reduce the percentage of Owners whose consent is required for the execution of any amendment of the Trust Agreement or supplement to the Trust Agreement without the prior written consent of the Owners of all Certificates or Additional Certificates then Outstanding, or (3) modify any of the rights or obligations of the Trustee without its prior written consent thereto, (4) modify any provision of the Trust Agreement expressly recognizing or granting rights in or to the Insurer in any manner which affects the rights of the Insurer under the Trust Agreement without its prior written assent thereto or (5) amend the provisions of the Trust Agreement described by the provisions of the Trust Agreement described under the caption "—Amendment or Supplement" without the prior written consent of the Owners of all Certificates or Additional Certificates then Outstanding.

The Trust Agreement and the rights and obligations of the County, the Corporation, the Owners and the Trustee under the Trust Agreement may also be amended or supplemented at any time by an amendment of the Trust Agreement or supplement to the Trust Agreement which shall become binding upon execution, but without the written consents of any Owners, but only to the extent permitted by law and after receipt of an unqualified approving Opinion of Counsel and only for any one or more of the following purposes:

(a) to add to the agreements, conditions, covenants and terms required to be observed or performed in the Trust Agreement by the County or the Corporation, or to surrender any right or power reserved in the Trust Agreement to or conferred in the Trust Agreement on the County or the Corporation, and which in either case shall not materially adversely affect the interests of the Owners; or

(b) to provide for additional or substitute Refunding Property as may be requested from time to time by the County in accordance with the Refunding Sublease; or

(c) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained in the Trust Agreement or in regard to questions arising under the Trust Agreement which the County or the Corporation may deem desirable or necessary and not inconsistent with the Trust Agreement, and which shall not materially adversely affect the interests of the Owners; or

(d) to provide for the execution and delivery of Additional Certificates in accordance with the Trust Agreement; or

(e) for any other reason, provided such amendment or supplement does not materially adversely affect the interests of the Owners or the Insurer, provided further that the County, the Corporation and the Trustee may rely in entering into any such amendment or supplement upon an Opinion of Counsel stating that the requirements of this subsection (e) have been met with respect to such amendment or supplement.

Any provision of the Trust Agreement expressly recognizing or granting rights in or to the Insurer may not be amended in any manner which affects the rights of the Insurer under the Trust Agreement without the prior written consent of the Insurer.

Disqualified Certificates. Certificates and Additional Certificates actually known by the Trustee to be owned or held by or for the account of the County (but excluding Certificates and Additional Certificates held in any pension or retirement fund of the County) shall not be deemed Outstanding for the purpose of any consent or other action or any calculation of Outstanding Certificates and Additional Certificates provided in the Trust Agreement, and shall not be entitled to consent to or take any other action provided in this Article, and the Trustee may adopt appropriate regulations to require each Owner, before his consent provided for in the Trust Agreement shall be deemed effective, to reveal if the Certificates and Additional Certificates as to which such consent is given are disqualified as provided in this paragraph.

Endorsement or Replacement of Certificates After Amendment or Supplement. After the effective date of any action taken as provided in the Trust Agreement, the Trustee may determine that the Certificates and Additional Certificates may bear a notation by endorsement in form approved by the Trustee as to such action, and in that case upon demand of the Owner of any Outstanding Certificate or Additional Certificate and presentation of such Certificate or Additional Certificate for such purpose at the Principal Corporate Trust Office of the Trustee a suitable notation as to such action shall be made on such Certificate or Additional Certificate. If the Trustee shall receive an Opinion of Counsel advising that new Certificates or Additional Certificates modified to conform to such action are necessary, modified Certificates or Additional Certificates shall be prepared, and in that case upon demand of the Owner of any Outstanding Certificates or Additional Certificates such new Certificates or Additional Certificates shall be exchanged at the Principal Corporate Trust Office of the Trustee, without cost to each Owner for Certificates or Additional Certificates then Outstanding upon surrender of such Outstanding Certificates or Additional Certificates.

Amendment by Mutual Consent. The amendment provisions of the Trust Agreement shall not prevent any Owner from accepting any amendment as to the particular Certificates or Additional Certificates owned by him, provided that due notation thereof is made on such Certificates or Additional Certificates.

Opinion of Counsel. In executing any amendment or supplement to the Trust Agreement, the Trustee may conclusively rely upon an Opinion of Counsel to the effect that all conditions precedent for the execution of an amendment or supplement to the Trust Agreement have been satisfied.

Defeasance

Discharge of Certificates and Trust Agreement. (a) If the Trustee shall pay or cause to be paid or there shall otherwise be paid to the Owners of all Outstanding Certificates and Additional Certificates the interest and principal represented thereby at the times and in the manner stipulated therein, then such Owners shall cease to be entitled to the pledge of and lien on the Base Rental Payments as provided in the Trust Agreement, and all agreements and covenants of the County, the Corporation and the Trustee to such Owners under the Trust Agreement shall thereupon cease, terminate and become void and shall be discharged and satisfied.

(b) Any Outstanding Certificates or Additional Certificates shall, prior to the maturity or prepayment date thereof, be deemed to have been paid within the meaning and with the effect expressed in the Trust Agreement if (i) in case said Certificates or Additional Certificates are to be prepaid on any date prior to their maturity, the County shall have given to the Trustee in form satisfactory to the Trustee irrevocable instructions to mail, in accordance with the provisions of the Trust Agreement, notice of prepayment of such Certificates or Additional Certificates on said prepayment date, (ii) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Defeasance Securities which are not callable or subject to prepayment prior to their respective maturity dates, the principal of and the interest on which when due, and without any reinvestment thereof, will provide moneys which, together with the moneys, if any, deposited with or held by the Trustee at the same time, shall be sufficient (as verified by a report of an independent certified public accountant or other independent financial consultant), to pay when due the principal or prepayment price (if applicable) of, and interest due and to become due on, said Certificates or Additional Certificates on and prior to the prepayment date or maturity date thereof, as the case may be, and (iii) in the event any of said Certificates or Additional Certificates are not to be prepaid within the next succeeding 60 days, the County shall have given the Trustee in form satisfactory to the Trustee irrevocable instructions to mail, as soon as practicable in the same manner as a notice of prepayment is mailed pursuant to the Trust Agreement, a notice to the Owners of such Certificates or Additional Certificates and to the securities depositories and information services specified in the Trust Agreement that the deposit required by (ii) above has been made with the Trustee and that said Certificates or Additional Certificates are deemed to have been paid in accordance with the Trust Agreement and stating such maturity or prepayment dates upon which moneys are to be available for the payment of the principal or prepayment price (if applicable) of said Certificates or Additional Certificates. Neither the securities nor moneys deposited with the Trustee pursuant to this paragraph nor principal or interest payments on any such securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal or prepayment price (if applicable) of, and interest on said Certificates or Additional Certificates; provided that Defeasance Securities deposited with the Trustee pursuant to this paragraph may be sold upon the written request of the County and the proceeds concurrently reinvested in other Defeasance Securities which satisfy the conditions of (ii) above provided that the Trustee receives an Opinion of Counsel to the effect that such sale and reinvestment does not adversely affect the exclusion of interest on the Certificates and Additional Certificates from federal income taxes, and provided further that any cash received from such principal or interest payments on such obligations deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable, and at the direction of the County, be reinvested in Defeasance Securities maturing at times and in amounts, together with the other moneys and payments with respect to securities then held by the Trustee pursuant to this paragraph, sufficient to pay when due the principal or prepayment price (if applicable) of, and interest to become due with respect to said Certificates or Additional Certificates on and prior to such prepayment date or maturity date thereof, as the case may be, and interest earned from such reinvestments shall, upon receipt by the Trustee of a Written Request of the County, be paid over to the County, as received by the Trustee, free and clear of any trust, lien or pledge. Nothing in this paragraph shall preclude prepayments pursuant to the Trust Agreement.

Any release under this subsection (b) shall be without prejudice to the right of the Trustee to be paid reasonable compensation for all services rendered by it under the Trust Agreement and all its reasonable expenses, charges and other disbursements and those of its attorneys, agents and employees, incurred on and about the administration of trusts by the Trust Agreement created and the performance of its powers and duties under the Trust Agreement; provided however, that the Trustee shall have no right, title or interest in, or lien on, any moneys or securities deposited pursuant to the Trust Agreement.

(c) After the payment or deemed payment of all the interest and principal represented by all Outstanding Certificates and Additional Certificates as provided in the Trust Agreement, the Trustee shall execute and deliver to the Corporation and the County all such instruments as may be necessary or desirable to evidence the discharge and satisfaction of the Trust Agreement, and the Trustee shall pay over or deliver to the County all moneys or securities held by it pursuant to the Trust Agreement which are not required for the payment of the interest and principal represented by such Certificates and Additional Certificates. Notwithstanding the discharge and satisfaction of the Trust Agreement, Owners of Certificates and Additional Certificates shall thereafter be entitled to payments due under the Certificates and Additional Certificates pursuant to the Refunding Sublease, but only from amounts deposited pursuant to the Trust Agreement and from no other source.

(d) In the event that the principal, interest, or both due on the Certificates shall be paid by the Insurer pursuant to the Bond Insurance Policy, the Certificates shall not be considered paid by the County or the Corporation under the Trust Agreement, and all covenants, agreements and other obligations of the Corporation and the County to the benefit of the Owners shall continue to exist and shall run to the benefit of the Insurer and the Insurer shall be subrogated to the rights of the Owners.

Unclaimed Moneys. Anything contained in the Trust Agreement to the contrary notwithstanding, any moneys held by the Trustee in trust for the payment and discharge of the interest or principal represented by any of the Certificates or Additional Certificates which remain unclaimed for two years after the date when the payments represented by such Certificates or Additional Certificates have become payable, if such moneys were held by the Trustee at such date, or for two years after the date of deposit of such moneys if deposited with the Trustee after the date when the interest and principal represented by such Certificates or Additional Certificates have become payable, shall be repaid by the Trustee to the County as its absolute property free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Owners shall look only to the County for the payment of the interest and principal represented by such Certificates or Additional Certificates; *provided, however*, that before being required to make any such payment to the County, the Trustee shall mail a notice to the Owner that such unclaimed funds shall be returned to the County within 30 days.

Bond Insurance Policy

Insurer Deemed Owner. For the purposes of (i) the giving of consents to amendments to the Trust Agreement, (ii) the giving of any other consent of the Owners under the Trust Agreement, and (iii) the control and direction of all rights and remedies upon the occurrence of an Event of Default, the Insurer shall be deemed to be the sole Owner of the Certificates for so long as it has not failed to comply with its payment obligations under the Bond Insurance Policy; provided, however, that, notwithstanding the foregoing, the Insurer shall not be deemed to be the Owner of the Certificates for any consent to an amendment to the Trust Agreement that (1) extends the Principal Payment Date of any Certificate or reduces the rate of interest represented thereby or extends the time of payment of such interest or reduces the amount of principal represented thereby or reduces the amount of any Mandatory Sinking Account Payment, (2) reduces the percentage of Owners whose consent is required for the execution of any amendment of or supplement to the Trust Agreement, or (3) amends the provisions of the Trust Agreement under the caption "—Amendment of or Supplement to Trust Agreement."

Consent of Insurer in the Event of Insolvency. So long as the Insurer is not in default under the Bond Insurance Policy, any reorganization or liquidation plan with respect to the County must be acceptable to the Insurer. In the event of any reorganization or liquidation, the Insurer shall have the right to vote on behalf of all Owners who hold Certificates absent a default under the Bond Insurance Policy.

Exercise of Remedies Upon Default. Notwithstanding anything to the contrary in the Trust Agreement, so long as the Insurer is not in default under the Bond Insurance Policy, upon the occurrence and continuance of an Event of Default as defined in the Trust Agreement, the Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the Owners or the Trustee for the benefit of the Owners under the Trust Agreement.

Limitation on Modification. Any provision of the Trust Agreement expressly recognizing or granting rights in or to the Insurer may not be amended in a manner which affects the rights of the Insurer under the Trust Agreement without the prior written consent of the Insurer.

Effect of Bond Insurance Policy. Notwithstanding any other provision of the Trust Agreement, in determining whether any actions taken pursuant to the terms and provisions of the Trust Agreement or under either Sublease are adverse to the interests of the Owners of the Certificates, the effect on the Owners shall be considered as if there were no Bond Insurance Policy.

Insurer as Third Party Beneficiary. To the extent that the Trust Agreement confers upon or gives or grants to the Insurer any right, remedy or claim under or by reason of the Trust Agreement, the Insurer is explicitly recognized as being a third-party beneficiary under the Trust Agreement and may enforce any such right, remedy or claim conferred, given or granted under the Trust Agreement.

Miscellaneous

Benefits of Trust Agreement Limited to Parties. Nothing contained in the Trust Agreement, expressed or implied, is intended or shall be construed to confer upon, or to give or grant to, any person or entity other than the County, the Corporation, the Trustee, the Insurer and the Owners, any right, remedy or claim under or by reason of the Trust Agreement or any covenant, condition or stipulation of the Trust Agreement, and all covenants, stipulations, promises and agreements in the Trust Agreement contained by and on behalf of the County or the Corporation shall be for the sole and exclusive benefit of the County, the Corporation, the Trustee, the Insurer and the Owners.

Execution of Documents by Owners. Any declaration, request or other instrument which is permitted or required in the Trust Agreement to be executed by Owners may be in one or more instruments of similar tenor and may be executed by Owners in person or by their attorneys appointed in writing. The fact and date of the execution by any Owner or his attorney of any declaration, request or other instrument or of any writing appointing such attorney may be proved by the certificate of any notary public or other officer authorized to take acknowledgments of deeds to be recorded in the state or territory in which he purports to act that the person signing such declaration, request or other instrument or writing acknowledged to him the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer, or by such other proof as the Trustee may accept which it may deem sufficient.

The ownership of any Certificate or Additional Certificate and the amount, payment date, number and date of owning the same may be proved by the books required to be kept by the Trustee pursuant to the provisions of the Trust Agreement.

Any declaration, consent, request or other instrument in writing of the Owner of any Certificate or Additional Certificate shall bind all future Owners of such Certificate or Additional Certificate with respect to anything done or suffered to be done by the County, the Corporation or the Trustee in good faith and in accordance therewith.

Waiver of Personal Liability. Notwithstanding anything contained in the Trust Agreement to the contrary, no member, officer, employee or agent of the County, the Corporation or the Trustee shall be individually or personally liable for the payment of any moneys, including without limitation, the interest or principal represented by the Certificates and Additional Certificates, but nothing contained in the Trust Agreement shall relieve any member, officer, employee or agent of the County from the performance of any official duty provided by any applicable provisions of law or by the Refunding Lease, the Refunding Sublease or the Trust Agreement.

Acquisition of Certificates by County. All Certificates and Additional Certificates acquired by the County, whether by purchase or gift or otherwise, shall be surrendered to the Trustee for cancellation.

Content of Certificates. Every Certificate of the County or Corporation with respect to compliance with any agreement, condition, covenant or term contained in the Trust Agreement shall include (a) a statement that the person or persons making or giving such certificate have read such agreement, condition, covenant or term and the definitions in the Trust Agreement relating thereto; (b) a brief statement as to the nature and scope of the examination or investigation upon which the statements contained in such certificate are based; (c) a statement that, in the opinion of the signers, they have made or caused to be made such examination or investigation as is necessary to enable them to express an informed opinion as to whether or not such agreement, condition, covenant or term has been complied with; and (d) a statement as to whether, in the opinion of the signers, such agreement, condition, covenant or term has been complied with.

Any Certificate of the County or the Corporation may be based, insofar as it relates to legal matters, upon an Opinion of Counsel unless the person making or giving such certificate knows that the Opinion of Counsel with respect to the matters upon which his certificate may be based, as aforesaid, is erroneous, or in the exercise of reasonable care should have known that the same was erroneous. Any Opinion of Counsel may be based, insofar as it relates to factual matters, upon information with respect to which is in the possession of the County upon a representation by an officer or officers of the County, unless the counsel executing such Opinion of Counsel knows that the representation with respect to the matters upon which his opinion may be based, as aforesaid, is erroneous, or in the exercise of reasonable care should have known that the same was erroneous.

Publication for Successive Weeks. Any publication required to be made under the Trust Agreement for two successive weeks in a Financial Newspaper may be made in each instance upon any Business Day of the first week and need not be made on the same Business Day of any succeeding week or in the same Financial Newspaper for any subsequent publication, but may be made on different Business Days or in different Financial Newspapers, as the case may be.

Funds. Any fund required to be established and maintained in the Trust Agreement by the County or the Trustee may be established and maintained in the accounting records of the County or the Trustee either as an account or a fund, and may, for the purposes of such accounting records, any audits thereof and any reports or statements with respect thereto, be treated either as an account or a fund; but all such records with respect to all such funds shall at all times be maintained in accordance with sound accounting practice and with due regard for the protection of the security of the Certificates and the rights of the Owners. The Trustee may establish such funds and accounts as it deems necessary to perform its obligations under the Trust Agreement.

The County and the Trustee may commingle any of the moneys held by it under the Trust Agreement for investment purposes only; *provided, however,* that the County and the Trustee shall account separately for the moneys in each fund or account established pursuant to the Trust Agreement.

Investments. Any moneys held by the County in the funds and accounts established under the Trust Agreement shall be invested only in Permitted Investments. Any moneys held by the Trustee in the funds and accounts established under the Trust Agreement shall be invested by the Trustee upon the written request of the County Treasurer only in Permitted Investments. In the absence of such direction, moneys shall be invested by the Trustee solely in Permitted Investments set forth in clause (6) of the definition thereof. The Trustee shall not be liable or responsible for any loss suffered in connection with any such investment made by it under the terms of and in accordance with this paragraph. The Trustee may sell or present for redemption any obligations so purchased whenever it shall be necessary in order to provide moneys to meet any payment of the funds so invested, and the Trustee shall not be liable or responsible for any losses resulting from any such investment sold or presented for redemption. Any interest or profits on such investments in any funds and accounts (other than the Excess Earnings Account) established under the Trust Agreement shall be deposited in the Earnings Fund and are to be transferred as provided in the Trust Agreement. For purposes of determining the amount on deposit in any fund or account under the Trust Agreement, all investments shall be valued annually at the amortized cost thereof (exclusive of accrued but unpaid interest, but inclusive of commissions). Investments in the Certificate Reserve Fund shall mature, or be subject to tender, redemption or withdrawal at the option of the holder thereof, not later than five years from the date of investment. Any Permitted Investments that are registrable securities shall be registered in the name of the Trustee, as trustee under the Trust Agreement.

California Law. The Trust Agreement shall be construed and governed in accordance with the laws of the State of California.

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APPENDIX D

BOOK-ENTRY SYSTEM

THE INFORMATION IN THIS APPENDIX D CONCERNING THE DEPOSITORY TRUST COMPANY, NEW YORK, NEW YORK AND ITS BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM SOURCES THAT THE COUNTY AND THE CORPORATION BELIEVE TO BE RELIABLE, BUT THE COUNTY AND THE CORPORATION TAKE NO RESPONSIBILITY FOR THE ACCURACY THEREOF.

The Depository Trust Company, New York, New York ("DTC"), will act as securities depository for the Series 2005 Certificates. The Series 2005 Certificates will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for each maturity of the Series 2005 Certificates, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, credit providers, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation, ("NSCC," "FICC" and "EMCC," also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, credit providers, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org. No information from these websites is incorporated by reference into this Official Statement.

Purchases of Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2005 Certificates on DTC's records. The ownership interest of each actual purchaser of each Series 2005 Certificate ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmation providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2005 Certificates are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2005 Certificates, except in the event that use of the book-entry system for the Series 2005 Certificates is discontinued.

To facilitate subsequent transfers, all Certificates deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Certificates with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2005 Certificates: DTC records reflect only the identity of the Direct Participants to whose accounts such Certificates are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. The County, the Corporation, the Trustee and the Underwriters will not have any responsibility or obligation to such Direct Participants and Indirect Participants or the persons for whom they act as nominees with respect to the Series 2005 Certificates. Beneficial Owners of Certificates may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2005 Certificates, such as redemptions, defaults, and proposed amendments to the bond documents. Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices will be sent to DTC. If less than all of the Series 2005 Certificates within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2005 Certificates unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Trustee as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2005 Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and Interest payments on the Series 2005 Certificates will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Trustee, on payable dates in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, or the Trustee, subject to any statutory, or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 2005 Certificates at any time by giving reasonable notice to the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, bond certificates are required to be printed and delivered. The Corporation may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, bond certificates will be printed and delivered to DTC.

THE COUNTY, THE CORPORATION, THE TRUSTEE AND THE UNDERWRITERS CANNOT AND DO NOT GIVE ANY ASSURANCES THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC WILL DISTRIBUTE TO THE BENEFICIAL OWNERS OF THE SERIES 2005 CERTIFICATES (I) PAYMENTS OF PRINCIPAL OF AND INTEREST ON THE SERIES 2005 CERTIFICATES (II) CONFIRMATIONS OF THEIR OWNERSHIP INTERESTS IN THE SERIES 2005 CERTIFICATES OR (III) OTHER NOTICES SENT TO DTC OR CEDE & CO., ITS PARTNERSHIP NOMINEE, AS THE REGISTERED OWNER OF THE SERIES 2005 CERTIFICATES, OR THAT THEY WILL DO SO ON A TIMELY BASIS, OR THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT.

NEITHER THE COUNTY, THE CORPORATION, THE TRUSTEE NOR THE UNDERWRITERS WILL HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO DTC, THE DIRECT PARTICIPANTS, THE INDIRECT PARTICIPANTS OF DTC OR THE BENEFICIAL OWNERS WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC; (2) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL AMOUNT OF OR INTEREST ON SERIES 2005 CERTIFICATES; (3) THE DELIVERY BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC OF ANY NOTICE TO ANY BENEFICIAL OWNER THAT IS REQUIRED OR PERMITTED TO BE GIVEN TO OWNERS UNDER THE TERMS OF THE INDENTURE; OR (4) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS OWNER OF THE SERIES 2005 CERTIFICATES.

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APPENDIX E

FORM OF SPECIAL COUNSEL OPINION

Upon delivery of the 2005 Certificates, Orrick, Herrington & Sutcliffe LLP, Special Counsel, proposes to render its final opinion in substantially the following form:

[Date of Delivery]

County of San Diego
1600 Pacific Highway
San Diego, California 92101

County of San Diego
Certificates of Participation
(North and East County Justice Facilities Refunding)
(Final Opinion)

Ladies and Gentlemen:

We have acted as special counsel in connection with the execution and delivery of $28,210,000 aggregate principal amount of County of San Diego Certificates of Participation (North and East County Justice Facilities Refunding) (the "Certificates"). In such connection, we have reviewed a Refunding Lease, dated as of September 1, 2005 (the "Refunding Lease"), by and between the County of San Diego (the "County") and the San Diego County Capital Asset Leasing Corporation (the "Corporation"), a Refunding Sublease, dated as of September 1, 2005 (the "Refunding Sublease"), by and between the County and the Corporation, a Trust Agreement, dated as of September 1, 2005 (the "Trust Agreement"), by and among Zions First National Bank, as trustee (the "Trustee"), the County and the Corporation, a Tax Certificate of the County, dated the date hereof (the "Tax Certificate"), and an Assignment Agreement, dated as of September 1, 2005 (the "Assignment Agreement"), by and between the County and the Trustee, and opinions of counsel to the County, the Corporation and the Trustee, certificates of the County, the Corporation, the Trustee and others and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Trust Agreement.

Certain agreements, requirements and procedures contained or referred to in the Trust Agreement, the Refunding Lease, the Refunding Sublease, the Tax Certificate and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Certificates) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to any Certificate or the interest components of any Base Rental Payment if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Our engagement with respect to the

Certificates has concluded with their execution and delivery, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the County. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the first paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Trust Agreement, the Refunding Lease, the Refunding Sublease, the Assignment Agreement and the Tax Certificate and any other documents, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause the interest portion of Base Rental Payments to be included in gross income for federal income tax purposes. In addition, we call attention to the fact that the rights and obligations under the Certificates, the Refunding Lease, the Refunding Sublease, the Trust Agreement, the Assignment Agreement, the Tax Certificate and any other documents and their enforceability are subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against counties in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum or waiver provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the real or personal property described in or subject to the liens of the Refunding Lease, the Refunding Sublease or the Trust Agreement or the accuracy or sufficiency of the description contained therein of, or scope of remedies available to enforce liens on, any such property. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Certificates and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Refunding Lease, the Refunding Sublease and the Trust Agreement have been duly executed and delivered by, and constitute valid and binding obligations of, the County.

2. The obligation of the County to make the Base Rental Payments during the term of the Refunding Sublease constitutes a valid and binding obligation of the County, payable from funds of the County lawfully available therefor.

3. Assuming due authorization, execution and delivery of the Trust Agreement and the Certificates by the Trustee, the Certificates are entitled to the benefits of the Trust Agreement.

4. The portion of each Base Rental Payment designated as and constituting interest paid by the County under the Refunding Sublease and received by the Owners of the Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. Such interest is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe

that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the accrual or receipt of such interest or the ownership or disposition of the Certificates.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

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APPENDIX F

FORM OF FINANCIAL GUARANTY INSURANCE POLICY

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Ambac

Financial Guaranty Insurance Policy

Ambac Assurance Corporation
One State Street Plaza, 15th Floor
New York, New York 10004
Telephone: (212) 668-0340

Obligor: Policy Number:

Obligations: Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

President

AMBAC ASSURANCE CORPORATION
CORPORATE
SEAL
WISCONSIN

Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Authorized Officer of Insurance Trustee

Form No.: 2B-0012 (1/01)

Ambac

Ambac Assurance Corporation
One State Street Plaza,
New York, New York 10004
Telephone: (212) 668-0340

Endorsement

Policy for:

Attached to and forming part of Policy No.:

Effective Date of Endorsement:

In the event that Ambac Assurance Corporation were to become insolvent, any claims arising under the Policy would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

Nothing herein contained shall be held to vary, alter, waive or extend any of the terms, conditions, provisions, agreements or limitations of the above mentioned Policy other than as above stated.

In Witness Whereof, Ambac has caused this Endorsement to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

Ambac Assurance Corporation

President

AMBAC ASSURANCE CORPORATION
CORPORATE
SEAL
WISCONSIN

Secretary

Authorized Representative

Form No.: 2B-0004 (7/97)